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FISCAL POLICY IN INDIA

BY

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PREFACE

THIS book comprises a series of lectures delivered by the author at the Calcutta University during the last cold weather. An attempt has been made throughout the work to present the different sides to every question in a fair and impartial manner. The historical portion of the book is based mainly on Parliamentary Papers, Blue-books of the Government of India, and other official publications. For the rest of the book the author has tried to avail himself of the most authoritative sources of information. As it is not possible to give references in all cases, he desires to express his gratitude to the authors and publishers of all works from which he has gathered any information. He is especially thankful to Mr. Sudhir Kumar Lahiri and Mr. Dhurjjati Prasad Mukerji, who have helped him with suggestions and in seeing the book through the press.

Calcutta, September, 1922

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27 GEO. 3, C 13—(CONSOLIDATION)

Description of manufactures		Duties levied on manufactures of British India £	s.	d.
Dimity	per yard	0	1	6
and besides	per £100 value	16	10	0
Calicoes, plain white	per piece	0	5	3
and besides	for £100 value	16	10	0
Cotton Yarn	per lb.	0	0	3½
Cotton Manufactures not enumerated per £100 value		50	0	0
Muslins, plain; Nanquin Cloths, Muslins or white Calicoes, flowered or stitched per £100 value		18	0	0

The following additional Duties on the above Rates were imposed by the undermentioned Acts.

37 Geo. 3, c. 15	£5 p. c.
37 Geo. 3, c. 110	£5 p. c.
38 Geo. 3, c. 76	£7 per 100 lbs. on Cotton Yarn £3 p. c. on other goods

39 GEO. 3, C. 59

Repeals existing Duties on Goods, the Produce and Manufactures of the East Indies, except the Additional Duty imposed per 38 Geo. 3, C 76, and levies.

On Warehousing

	£	s.	d	
Muslins, plain ; Nanquin cloths, Muslins, white Calicoes, flowered or stitched, per £100 value	7	10	0	£ 3 p. c. additional by 38 Geo. 3, C. 76, above-mentioned.
Plain white Calicoes and plain white Dimity, ditto	2	10	0	
Cotton Manufactures not ennumerated ditto	2	0	0	

For Home Consumption

		£	s.	d.
Calicoes, plain white	the piece	0	6	8
and besides	per £100 value	20	19	1
Cotton Manufactures not enumerated	do.	122	4	5
Dimity, plain white	the yard	0	2	0
and besides	per £100 value	22	3	6
Muslins, plain ; Nanquin cloths, Muslins, white calicoes, flowered or stitched per £100 value		19	13	9

No distinctive rate for goods of British from Foreign India.

43 GEO. 3, C. 68 (CONSOLIDATION)

Repeals existing Duties and levies on warehousing East India Goods.

		£	s.	d.
Muslins, plain; Nanquin cloths, Muslins and white Calicoes, flowered or stitched per £100 value		7	10	0
Plain white Calicoes and plain white Dimity	do.	2	10	0
Cotton Manufactures not enumerated	do.	2	0	0

For Home Consumption

		£.	s.	d.
Calicoes, plain white	per £,100 value	50	0	0
Cotton Manufactures not enumerated	do.	52	0	0
Dimity, plain white	do.	50	0	0
Muslins, plain; Nanquin cloths, muslins and white calicoes, flowered or stitched per	£100 value	20	0	0
Cotton thread	do.	52	0	0
Cotton Yarn	per lb.	0	0	5

By 43 Geo. 3, C. 70, 126, 10s. p. c. or one-eighth in addition to the above rates of duties was imposed.

49 GEO. 3, C. 98 (CONSOLIDATION)

Repeals 43 Geo. 3, C. 58, and 70 levies on Warehousing East India Goods.

		£	s.	d.
Muslins, plain, Nanquin cloths, muslins and white Calicoes flowered or stitched	per £100 value	7	10	0
Plain white Calicoes and plain white Dimity	do.	2	10	0
Cotton Manufactures not enumerated	do.	2	0	0

For Home Consumption

		Manufactures of British India		
		£	s.	d.
Calicoes, plain white per £100 value		51	5	0
Caps of Cotton	do.	54	0	0
Cotton Manufactures not enumerated	do.	54	0	0
Dimity plain white	do.	51	5	0
Muslins plain; Nanquin cloth, muslins and white calicoes flowered or stitched per £100	value	20	10	0
Cotton Stockings	do.	54	0	0
Cotton Thread	do.	54	0	0
Cotton Yarn	per lb.	0	0	6

In addition to the above permanent duties, a war duty of £83 6s. 8d. p.c. on one-third of their amounts, is levied in the same Act.

This war duty continued per 55 Geo. 3, C. 53 and made perpetual per 56 Geo. 3, C. 29.

59 GEO. 3, C. 52 (CONSOLIDATION)

Repeals all existing Customs Import Duties, and Levies.

For Home Consumption

		Manufactures of British India		
		£	s.	d.
Calicoes, plain white	per £100 value	67	10	0
Calicoes, white, flowered or stitched	do.	37	10	0
Caps of Cotton	do.	67	10	0
Articles Manufactured of Cotton	do.	67	10	0
Dimity, plain white	do.	67	10	0
Muslins, plain, or if flowered or stitched	do.	37	10	0
Nanquin Cloths	do.	37	10	0
Shawls of Cotton		67	10	0
Stockings of Cotton		67	10	0
Thread of Cotton		67	10	0
Yarn of Cotton	per lb.	0	1	3

APPENDIX B

RATES OF DUTY LEVIED IN BRITISH INDIA ON THE IMPORTATION OF BRITISH AND FOREIGN COTTON GOODS FROM THE EARLIEST PERIODS

PRESIDENCY OF BENGAL

From	British Bottoms	Foreign Bottoms
1773	6½ p. c.	
1778	7 p. c.	
1795	2½ p. c.	
1797	3½ p. c.	
1810	7½ p. c.	
1811	7½ p. c.	15 p. c.
1815		
UNITED KINGDOM	2½ p. c.	5 p. c.
Foreign	5 p. c.	10 p. c.
1817		
United Kingdom	2½ p. c.	5 p. c.
Foreign Europe	5 p. c.	10 p. c.
Other Goods	7½ p. c.	15 p. c.
1825		
United Kingdom or other British Possessions	2½ p. c.	5 p. c.
Foreign Europe	5 p. c.	10 p. c.
Other Foreign	7½ p. c.	15 p. c.
1836		
United Kingdom or other British Possessions	3½ p. c.	7 p. c.
Foreign	7 p. c.	14 p. c.
1845		
United Kingdom or other British Possessions	5 p. c.	10 p. c.
Foreign	10 p. c.	20 p. c.

PRESIDENCY OF FORT ST. GEORGE

From		British Bottoms	Foreign Bottoms
1803	- -	6 p. c.	8 p. c.
1812	- -	8 p. c.	
Do.	- -		16 p. c.
1816			
UNITED KINGDOM	-	$2\frac{1}{2}$ p. c.	5 p. c.
Foreign Europe		5 p. c.	10 p. c.
1819			
United Kingdom		$2\frac{1}{2}$ p. c.	5 p. c.
Foreign Europe	- -	5 p. c.	10 p. c.
Other Foreign Goods	-	8 p. c.	16 p. c.
1844			
United Kingdom or other British Possessions	-	$3\frac{1}{2}$ p. c.	7 p. c.
Other places	- -	7 p. c.	14 p. c.
1845			
United Kingdom or other British Possessions	-	5 p. c.	10 p. c.
Other places	- -	10 p. c.	20 p. c.

PRESIDENCY OF BOMBAY

1799			
In force since 1795	2½ p. c. on manifest with exceptions	2½ p. c. on an advance of 60 p.c. on manifest	
1805	3½ p. c.	3½ p. c.,	do.
1813		4½ p. c.,	do.
1815			
United Kingdom	2½ p. c.	4½ p. c.,	do.
Foreign Europe	[illegible] p. c.		
1817			
United Kingdom	2½ p. c.	4½ p. c.,	do.
Foreign Europe	3½ p. c.		
1838			
United Kingdom or other British Possessions	3½ p. c.	7 p. c.	
Other places	7 p. c.	14 p. c.	
1875			
United Kingdom or other British Possessions	5 p. c.	10 p. c.	
Other places	10 p. c.	20 p. c.	

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CHAPTER I

INTRODUCTORY

For nearly half a century, Indian publicists felt keenly, and expressed themselves strongly on the question of the fiscal policy of India. And the growth of the spirit of nationalism in the country has of late considerably intensified this feeling. But apart from sentiment, the subject has, in recent years, acquired an importance—from the point of view both of the Government and the people,—which it never possessed before. With the phenomenal development of the foreign trade of India, the income derived from customs tended continually to grow, and this tendency has been greatly accentuated by the levy of fresh taxes during the last few years. A comparison of the customs figures at different periods is interesting in this connection. In 1793, the customs revenue of India was about 20 lakhs, and, in 1858, the year of the assumption

of the direct government by the Crown, it did not go beyond two and a half crores. In 1920-21, however, the customs yielded a sum of no less than 33½ crores. The customs receipts during this year thus exceeded the land revenue which used always to be regarded as the mainstay of Indian finance. The position now occupied by customs in the financial system of India becomes still clearer when the fact is recalled that, in last March, the Finance Member proposed to raise, by a few strokes of his pen, as it were, nearly 15 crores of additional revenue from this source alone.

The subject has had an additional importance lent to it by the fact that, since the introduction of the recent constitutional reforms, land revenue has ceased to be of any benefit to the Central Exchequer. The Government of India is thus compelled to look upon customs as the bulwark of its financial position.

From the point of view of the people the chief interest of the subject lies in the concern which is now being increasingly felt for the economic advancement of the country. The apathy of the people in matters industrial has now given place to a jealous regard for India's economic interests, and the desire is now becoming

general to follow in the footsteps of the more advanced nations and use the tariff as a weapon of defence, if not also of offence, in the industrial struggle.

The popular feeling which now prevails in regard to the subject seems to be the natural outcome of the tariff policy which has been followed by the Government in the past. The present can thus be understood only with reference to the past. Besides, the germs of the future are to be found in the past as well as the present. A proper study of the subject must, therefore, begin with its history.

The fiscal history of India divides itself into three fairly well defined periods. The first was the period of the East India Company's rule, when a protective policy was followed in the country. The protection was, however, in favour of Great Britain, and against India. The second period commenced with the transfer of the administration of India from the hands of the Company to those of the British Crown, and ended in 1914. These were the years during which the principles of free trade were applied with the utmost rigour. During both these periods, England carried out in India her own trade policy. The third period was ushered in

with the sound of the war-drum, and may be said to be still continuing. The financial stress caused by the great world upheaval led to some modification of the fiscal system of India, but the aftermath of the war has been responsible for the introduction of still greater changes into it. The customs duties of recent years have, it is true, been imposed for revenue purposes, but their protective tendency has, in a few cases at least, been none the less marked. In fact, this period may be said to mark the transition from an absolute adherence to free trade principles to the adoption of a policy of protection.

The second and third chapters of the book have been devoted to a brief historical review of the fiscal system of India. The fourth chapter, also treated historically, will give the reader a glimpse of the state of things as it exists at present. Each of these periods has, again, been divided into sub-periods, in view of their special characteristics.

An adequate understanding of the subject is not possible without a real grasp of the theoretical aspect of the question. There are some people who affect to deride theories. But they forget that facts, by themselves, do not

convey any meaning. Facts have to be interpreted. And theory, as has been well said, is the soul of facts. In the fifth chapter, an examination of the theoretic bases of the two rival doctrines of free trade and protection has been attempted, and the main ideas of the different schools have been presented in the words, as far as possible, of their chief exponents.

The question of the future tariff policy of India has been discussed in the sixth chapter. In discussing this question, not only the general principles, but also the special needs and conditions of India, have been kept in view. With the main question are intimately connected many subsidiary questions of considerable importance, and these have been examined in the light, not merely of economic theory, but also of the practice of other nations.

In the seventh chapter, the subject of Imperial Preference has been treated with reference to India's present position and future possibilities. The question of preference within the British Empire has of late attracted considerable attention in all parts of the Empire. But the interests of India have, as a rule, been ignored in these discussions. Besides, the discussions have proceeded mainly upon political considerations.

In India, however, the question has to be approached from the economic, as well as the political, standpoint. A comprehensive view of this question has, therefore, been adopted in this book.

CHAPTER II

THE FISCAL POLICY OF THE EAST INDIA COMPANY

The East India Company was, for about a century and a half since its foundation, a trading corporation, pure and simple. Commercial expansion in the East was its only objective during this period. The Company gradually acquired various commercial privileges from the rulers of the different parts of India. In 1716, a *firman* was granted by the Emperor of Delhi, exempting the Company's trade from duties, on the payment of a *peshcush* of 10,000 rupees a year. This *firman* recited, "That Customs on English goods are only payable at Surat; that in Shah Jehan's time these were only two per cent.; in the time of Auranzebe 3½ at Surat, and none at other places; in Bahadur Shah's time they were 2½; that by reason of the government officers' oppressions, it is three years since they have withdrawn their factory.

In Bahar and Orixa they have no customs. In Hughley they give 3,000 rupees a year in lieu."[1]

§ 1. (1765—1833)

When the East India Company assumed ruling powers, it developed its own tariff system. But the acquisition of territories by the Company was made piecemeal. For many years, the machinery of administration was very imperfect. Even after a stable form of government had been introduced, the three Presidencies of Bengal, Bombay, and Madras were independent of each other, so far as the regulation of customs was concerned. The Regulating Act of 1773 did, no doubt, give the Governor-General of Bengal some power of control over the other Presidencies, but this power was never interpreted to include interference in matters relating to trade and commerce. The result was that not only did each Presidency administer its own customs department, but had its separate tariff.[2] The Regulations passed by the Presidency Governments were, however, subject to the approval of the Court of Directors and the Board of Control, and this fact helped to introduce some element

[1] J. Macgregor, *Commercial Tariffs*, p. 56.

[2] Report of the Select Committee on the Affairs of the East India Company, 1810. The Customs collections in 1793 in Bengal amounted to £60,000, and in 1806-7 to £2,64,831.

of similarity, though not uniformity, into the tariff systems of the different Presidencies.

The customs in each Presidency were divided into two parts, namely, sea customs and land customs, though both the branches were under the control of the same provincial authority. The customs of the Bengal Presidency (including the Upper Provinces) first claim our attention. This branch of the administration was under the direction of the Revenue Department till the year 1793, when it was transferred to the Commercial Department. A Regulation passed in that year established the principle of collection and the rate of the customs to be collected on imports and exports at the two then existing custom-houses at Calcutta and Manjee. Certain important alterations were made in 1793, when the town duties at Calcutta were abolished, and the government customs, which had been discontinued in 1788, were revived in this city. In 1797, a new duty of 1 per cent. was instituted. In 1801, the Calcutta town duties were re-established, and the government customs on inland imports and exports were revived at the principal cities.[1] Until 1809, the rates of duty prevalent in Bengal on exports and imports were,

[1] Report 1 of the Customs Committee, 1836.

with a few exceptions, 3½ per cent. customs and 4 per cent. town duty levied generally ad valorem. There were, besides, various other payments to be made, such as stamps on *rowannahs*, commission and fees to customs masters, etc., which were burdensome and vexatious to individuals and increased the cost of collection.[1]

In 1809, a Customs Committee recommended many important changes. The primary object sought by the Committee was two-fold, namely, to improve the revenue, and to afford relief to the people from a system harassing from its complexity and objectionable from the inequality with which its burdens fell on different classes. The Committee, in the revision they proposed, adopted the following principles:

(i) That the burden borne by the inhabitants of the different provinces should be equalized;

(ii) That trade should be liberated from impolitic restraints, to the extent of permitting merchandize, having once paid duty, to pass free throughout the territories of the Presidency;

(iii) That the number of customs houses

[1] Report of the Committee on Customs and Post Office Regulations, 1836.

and chowkees should be reduced to the lowest practicable limit;

(iv) That, in the enumeration of goods liable to inland duty, articles too little in value and too small in quantity should be exempt from duty, and that the duty on enumerated articles should be fixed at such rates as the goods were able to bear;

(v) That goods of those particular descriptions which were only imported by sea should be allowed free transit throughout the Presidency;

(vi) That, with certain exceptions especially provided for, goods subject to importation or transit duties should not also be liable to town or consumption duties;

(vii) That *rowannahs*, fees and commission to customs masters should be abolished; and that all the duties collected under the various denominations should be consolidated into one tax, to be levied once for all, after which free transit should be allowed to the taxed article;

(viii) That goods should be rated in the tariff at a fixed valuation in all practicable instances, rather than ad valorem.[1]

These principles were embodied in Regulation

[1] The customs revenue under the new Regulation was estimated nearly at Rs. 57 lakhs, whilst the proceeds of the system which was superseded had amounted to a little over Rs. 51 lakhs. Report, 1836.

IX of 1810, which rescinded all previous enactments regarding customs. Export and import duties were fixed ordinarily at $7\frac{1}{2}$ per cent., in some cases at 5, and in others at 10 per cent. A few articles, such as bullion, horses, teak, timber, opium purchased at the Company's sales, etc., were exempted from duty. The general tendency was to raise the rate of taxation. No distinction was made between British and foreign bottoms. Nor were the rates of duty affected by the origin of goods. The administrative provisions of this Regulation related to the time and manner of the collection of export and import duties, and the grant of certificates and drawbacks. In some cases, a drawback was specifically allowed, and all goods imported expressly for re-exportation were declared to be entitled to a drawback amounting to two-thirds of the duty paid on their importation.

The financial results of the system introduced in 1810 were very satisfactory. But while the new system was advantageous to long-distance trade, it became exceedingly burdensome to trade over short distances. Trade with the ports was thus encouraged at the expense of local trade.

Regulation III of 1811 introduced an important alteration into the sea customs law, the object

of which was to give a preference to British vessels over foreign shipping by imposing heavier duties on the latter and by securing the carrying trade of India to the former. The duties levied on exports and imports on foreign bottoms were raised to double the rates chargeable on the trade conveyed on British bottoms. The principle that foreigners should be twice as badly off as Englishmen was also followed in regard to drawbacks. Another provision of the Regulation is worth noting. In order to exclude, as far as possible, foreigners from the Indian coasting trade, it was provided that foreign vessels should be cleared out from a British Indian port only direct to their own countries, and they were restrained from proceeding from such port of clearance to any foreign European Settlement in India, or any port belonging to an Indian or Chinese power. Security was also taken for enforcing the delivery of cargo loaded on board a foreign vessel at a British Indian port only at the country to which such vessels belonged.[1]

Many changes of minor importance were introduced in 1812, 1813, and 1814. Regulation IV of 1815 effected very important alterations.

[1] Report of the Committee on Customs and Post Office Regulations, 1836 (House of Commons, 151).

With a view to encouraging the manufactures, trade, and shipping of Great Britain, it was provided that woollens of all sorts, all metals in a manufactured state, and canvas, cordage and marine stores, being the produce or manufacture of the United Kingdom, which were hitherto assessed with duties at 5 and 10 per cent., should be exempted from duty on importation, provided they were brought from Great Britain on British registered or Indian-built ships. It was also provided that all other articles similarly imported and being the produce or manufacture of the United Kingdom should, instead of being subject to the existing duties, be assessed at the rate of 2½ per cent.; wines and spirits only were excepted from this provision, and were subject to the duties already established. Further, it was provided that articles, the produce or manufacture of foreign Europe, if imported in British registered or Indian-built ships, were to pay duty at the rate of 5 per cent.[1] These duties having been once paid at any port in British India, the goods were not to be subjected to any further tax in transit from port to port. With

[1] The Charter Act of 1813 contained some important provisions relating to these matters. The 24th Section subjected the commerce of the East India Company to the payment of the like rates, customs, and duties, as that carried on by private traders. The 25th Section directed that no new or additional duty or tax upon the

regard to exports, the provision was that indigo, cotton, wool, hemp and sunn, the produce or manufacture of British India, should on exportation by sea to Great Britain, on British registered or Indian-built ships trading with the United Kingdom, be entitled to a drawback equal in amount to all duty paid on the articles. All other articles liable to duty under existing Regulations and exported by sea according to the foregoing conditions, were to be allowed to secure such drawback as would leave the amount of duty actually retained at 2½ per cent.[1]

The effect of these modifications was, in reality, to reduce the taxation of the export and import trade with Great Britain to rates of which the maximum was 2½ per cent. A great impulse was thus communicated to British commerce and industry, and the objects of British national policy were accomplished. But their effects on Indian industry and trade were disastrous. The produce and manufactures of India, heavily taxed by the inland system, were placed in an unquestionably disadvantageous

export or import, or transit of any goods, wares, or merchandise whatsoever, should be valid in India till sanctioned by the Directors; and the 67th Section declared the whole of the duties, both on the import and export trade, to be a part of the territorial revenue. *Vide* Letter from the Court of Directors of the E. I. Co. to the Governor-General in Council, dated 6th September, 1813.

[1] Report of the Committee on Customs, 1836

position in coming into competition with free or lightly taxed foreign articles, produced by the most improved machinery. These changes also resulted in a great loss of public revenue, and "caused taxation to operate with a very unequal pressure at the same time that they dried up some considerable sources of revenue."[1]

The exemption from duty, accorded by Regulation IV of 1815 to unmanufactured metals, was extended in 1817 to all metals, whether wrought or unwrought, of British origin. In this as well as the other alterations effected by Regulation XXI of 1817, as was rightly observed by a body of British officials, "the same anxiety to promote British interests which characterised the provisions of Regulation IV of 1815 is observable; but both in that Regulation and in this the effect of such changes on the interests of India seems to have been overlooked, or at least very partially adverted to. If the system of the Sea Customs established in 1810 was one in which due regard was had to the interests of both countries, and there certainly does not appear to be any ground for supposing that the trade of India received more favourable consideration from the Committee than the

[1] Report of the Committee relating to the Customs and Post Office systems, 1836.

commerce of Great Britain; the introduction of modifications, having for their object the especial advantage of one class, was calculated not only to reproduce the inconveniences of inequality and partiality, the remedy of which was one of the chief purposes of the Committee, but it must have tended to work the much more serious injury of depriving one class of interests without benefiting the other to a countervailing extent."[1]

By Regulation V of 1823 the transit and sea import duty leviable on piece-goods (cotton, silk, and mixed), the manufacture of the British Indian territories, was reduced from 7½ to 2½ per cent. It was provided that these descriptions of piece-goods, which had once paid either the transit or the import duty specified, should have free export from any part in the Bengal Presidency, provided they were exported to Europe on British bottom; if exported to Europe on foreign bottom, an export duty of 2½ per cent. was chargeable; if exported to places not in Europe, they became liable to an

[1] Report 1 of the Committee on Customs and Post Office, 1836.

Regulations XV and XVI of 1817 were enacted for the protection of the salt and opium monopolies. The latter of these duties was entirely prohibitory, and the former was nearly so as respects general trade.

export duty of 2½ or 7½, according as they were exported on British or foreign bottom. "The object of these provisions," as was pointed out by the Committee, "apparently was to place the piece-goods of India on the same footing with those of Great Britain, the latter having, since Regulation IV of 1815 was passed, been favoured by the customs laws to a degree which might have enabled them to drive the former out of their own market, even had the influence of British machinery been less overwhelming than it was. This act of consideration for the manufacturers of Indian piece-goods came too late to do them any service: but the relief, such as it was, was only partial, for there still remained the crying inequality of Indian copper, steel, quicksilver, etc., taxed at the rate of 10 per cent., whilst those of Great Britain were free, and the generality of Indian produce and manufactures, bearing a burthen not only more than double that imposed on the bulk of British imports, but heavier than that borne by the goods of foreign Europe. The no less striking injustice done to India in the heavy taxation which pressed upon her export trade to China, and to other places eastward of the Cape of Good Hope, compared with the burthen imposed on her

export trade to Great Britain, remained also unredressed."[1]

But we cannot get a full and accurate view of the whole situation unless we contrast the advantages which were granted to the manufactures of Great Britain by India with the restrictions imposed by Great Britain upon Indian goods. A glance at the tariff schedules of Great Britain will convince any impartial observer of the extreme anxiety felt by the statesmen of that country to exclude Indian cotton manufactures from her shores.[2] In 1787, cotton manufactures from India were subjected to a duty of 50 per cent., except dimity and calicoes which paid 16½ per cent., and muslins which were assessed at 18 per cent. Additions to the rates were subsequently made, and, in 1799, some classes of cotton goods paid duty at the rate of 122 per cent. In 1819, the duty on many descriptions of Indian cotton goods was as high as 67½ per cent.[3] But the injustice did not end with the high duties. The importation into Great Britain of many classes of goods from India, such as embroidered shawls, handkerchiefs,

[1] Report of the Committee on the Customs and Post Office Systems, 1836.

[2] *Vide* Appendix A.

[3] A more favourable treatment was of course accorded to the manufactures of the British colonies.

kingcabs, coloured muslins, velvet, silks, chintz, crape, and calico towels with coloured borders, was absolutely prohibited.[1]

In 1825, the entire customs law of Bengal was recast, but the main provisions of the previous enactments were preserved unaltered. Imports by sea were classed under three heads: first, goods produced in the United Kingdom; secondly, goods of foreign Europe and the United States of America; thirdly, those of places other than Europe and America. Of the imports under the first head, some, namely, metals, woollens, and marine stores, were exempt from duty on importation, and the others were, with scarcely any exception, chargeable with a $2\frac{1}{2}$ per cent. duty. Imports of the second class were, with a few exceptions, subject to duty at the rate of 5 per cent. Imports under the third head were, with two or three exceptions, liable to duty either at $7\frac{1}{2}$ per cent. or at 10 per cent. These were the rates fixed for goods which were imported on British bottoms; when imported on foreign bottoms, double these rates were charged.[2]

In the reigns of George IV and William IV, and in the early years of Queen Victoria, the duties were considerably reduced.

Vide Return to an Order of the House of Commons, dated 19th March, 1846.

[1] Accounts and Papers relative to the East India Trade (House of Commons, 1813.)

[2] Thus, goods exported to Europe or America on British bottom must have paid $2\frac{1}{2}$ per cent., and on foreign bottom 5 per cent. Goods destined for other places must, if exported on British

As regards exports, the general rule was that all goods were subject to taxation. The rates varied, as in the case of imports, according to the place to which goods were to be exported and according to the vessel on which the exportation was effected. When goods intended for exportation had paid precisely the regulated rate of taxation in the shape of import or transit duty, they were entitled to free export. When they had paid less than the regulated rate, the difference was exacted as export duty. And if they had paid more, it was refunded in the form of drawback. Here also, a preference was given to British over Indian interests, for the only goods, excepting those specially exempted from duty, which were permitted to leave the country without having been taxed at the rate of 2½ per cent., were the produce or manufactures of Great Britain which had been imported paying 2½ per cent., of which two-thirds were claimable as drawback on re-exportation to Europe or America on a British vessel.

The result of these Regulations was, as the Committee observed, an "unparalled perplexity occasioned by the joint operation of our export.

bottom have paid 5, 7½ or 10 per cent., according to the import or transit duty assigned to them in the schedule, and, if exported on foreign bottom, they must have paid double the rates. *Vide* Report on Customs and Post Office Systems, 1836.

and transit duty with the concomitant embarrassments of proportions of drawback or proportions of export duty, according to flag and destination, the whole forming a mass of confusion which has never been equalled in any customs code in the world."[1]

Reference has already been made to the internal duties levied in Bengal. But a few more words must be said about a system which was oppressive to the people, and considerably hampered trade. The inland customs system in the Bengal Presidency (including Agra) was founded on the indigenous method of collecting such taxes which had prevailed from olden times. In 1788, Lord Cornwallis abolished all the internal custom-houses in Bengal and Behar, retaining only export and import duties, which were collected at Manjee on the Benares frontier and at Calcutta and the other seaports. In 1801, internal duties were re-established in these provinces at the rate of 3½ per cent., with a provision that articles which had once paid inland duty should not again be liable to it.[2]

At this period, duties were levied according to

[1] Report of the Committee on Customs and Post Offices, 1836.

[2] In the opinion of the Government of India, the name 'transit duty' was not properly applicable to the impost levied in Bengal, but they regarded it as "in fact a trade duty." *Vide* Extract Separate Letter from India, dated 2nd September, 1835.

various rates in the different parts of the provinces. In 1810, the various systems, as we have already seen, were reduced to one uniform plan. The principle was to consolidate the different duties which were then separately levied, and to realise the consolidated duty once for all on the whole trade of the country by environing the principal marts with cordons of chowkees. For this purpose, customs-houses were established at Balasore, Calcutta, Chittagong, Dacca, Murshidabad and Patna in the Lower Provinces; at Gazipore, Benares and Mirzapore in the Central Districts; and at Allahabad, Cawnpore, Farrackabad, Bareilly, and Agra, and eventually in each of the five divisions of the Delhi territory, in the Upper Provinces.[1]

A comparison of the two systems of collecting duties is instructive. The indigenous system of transit duties was, in many respects, preferable to the one which was introduced by the East India Company. In olden times, the rate of duty payable for small distances was extremely light. It was increased by the accumulation of new imposts in proportion to the distance over which goods were conveyed. Intercourse

[1] Report of the Committee on Customs and Post Office Regulations, 1836.

between neighbouring places was, therefore, never seriously impeded. The new duty, on the contrary, was fixed at the average amount of the payments to which goods conveyed long distances were before liable, and was thus so heavy as to seriously interrupt commercial intercourse between neighbouring places. Another advantage of the indigenous system was that no passes were required to be taken beforehand. But under the new system they had to be invariably procured before any goods were allowed to pass. The third merit of the old system was that the duties were levied according to such general denominations of quantity and kind that there was no excuse for search and detention. Only in one respect was the new method superior to the old, namely, that large tracts of country on both sides of the river, which had formerly been studded with chowkees, were now entirely free from the presence of customs officers.[1]

The town duties in Bengal were less injurious than the transit duties, because they were far more limited in their operation.[2] Being

[1] Report of the Committee on Customs, 1836.

[2] The Government of India, in a letter to the Directors, after describing the vexatious and unjust character of the town duty, said: "In the Bengal and Agra Presidencies the Town where a Sudder Custom House is established suffers the disadvantage of

confined to particular towns, they did not necessarily interrupt the general course of trade. And as they were levied only on a few articles, and those mostly of a bulky nature, there was not the same necessity for minute search as there was in the case of transit duties, and no rowannahs were required to be taken out. On the other hand, the town duties were extremely partial. A distinction was made not only between town and country, but also between those towns in which such duties were levied, and all other towns. Trade and manufactures naturally deserted places which were so heavily taxed, and hence a perpetual tendency to fluctuations was kept up. The inconvenience of the town duties was daily experienced by the inhabitants. They also seriously interfered with the freedom of manufacture. The most serious evil of all, however, to the inhabitants of the taxed towns was that they were virtually excluded from participation in the general trade. Nor did they bring much revenue into the coffers of the Government. The goods were smuggled into towns enormously, and quite a large percentage of them escaped the payment of any duties.[1]

a separate Consumption Tax, although larger Towns of a more commercial character in its immediate Vicinity may be free from all such Impost". Public Letter from India, 2nd September, 1835.

[1] *Vide* Report of the Committee on Customs, 1836.

So much for Bengal. The territories comprising the Bombay Presidency covered a long sea-board, and contained a large number of ports, some of which, however, belonged to independent States or chiefs, and were free from British interference. The excellent situation of Bombay soon made it the entrepôt not only of the commerce of its own territories but of the whole of Western India and of the gulfs of Arabia and Persia.

Originally, duties were levied at Bombay on a low scale, and to this fact was due, to a large extent, the prosperity of the seaport.[1] It is a fact worthy of note that duties were collected on imports only, all export duties having been withdrawn since 1799.[2]

So late as 1805, the rate of duty was 2½ per cent. ad valorem, modified in the case of foreign goods and vessels from certain specified countries by an advance on the prime cost at various rates, thus raising the rate of duty to

[1] In 1793, the customs revenue of the Bombay Presidency was £53,000, and in 1808-9, £137,497. *Vide* Report on the Affairs of the E. I. Company, 1810.

[2] The only exception to this was made in 1813 in the case of goods purchased at Bombay and exported on foreign bottom, which were made liable to 3½ per cent. on the invoice value, making, with the original import duty of 3½ per cent. about 7 per cent., which was probably imposed to equalise the import and export on foreign bottoms. *Vide* Report of the Committee on Customs and Post Offices, 1836.

a certain extent. In that year, an addition of 1 per cent. was made to the rate of duty, raising it to 3½ per cent. In 1813, the rate of duty at Bombay on goods imported or exported on foreign bottom was raised on imports from 3½ to 4½ per cent., with an advance of 60 per cent. in the case of foreign goods and foreign vessels, which made the rate of duty $7\frac{3}{16}$ per cent. On exports, it was fixed at 3½ per cent., which, with the original import duty of 3½ per cent., averaged about the same as the import duty at 7 per cent.

The rates at Bombay were never enhanced beyond those fixed in 1813, and when, in 1815, the import trade of Great Britain was rendered with respect to some articles free, and the duty on others was reduced to 2½ per cent., the port of Bombay shared in the benefit of the reduction. By a special enactment of 1817, the duty on goods coming from foreign Europe on British or registered ships, which was at the three Presidencies fixed at 5 per cent., was at Bombay reduced to 3½ per cent.[1]

The imports from the interior of India, and from all parts or places other than those specified, were charged at 3½ per cent. At Surat and other

[1] Report of the Committee on Customs and Post Office Regulaions, 1836.

ports in the Bombay Presidency, the system and the amount of customs duties differed to some extent, but many of them enjoyed mutual certificate privileges. British goods and goods imported on British bottom were, at all subordinate ports, admitted free on arrival from Bombay.

In 1827, the system of sea customs under the Bombay Presidency was revised by a Committee, when the duties and exemptions on goods from the United Kingdom were retained in their former state, while the duties on foreign produce and goods imported on foreign bottoms were raised.

It was generally the policy of the Bombay Government to retain the sea customs in their own hands. But in 1827-28, the urgent call for the reduction of expenditure led that Government to issue imperative orders for farming the sea customs everywhere except at the port of Bombay and a few other ports. The effect of farming the customs generally proved favourable to the revenue, but oppressive to the people.

The land customs of the Bombay Presidency were based on the ancient system, and were preserved in their original form until the first quarter of the 19th century. An essential feature of the system was to levy transit duties

to make the trader pay them by degrees in small sums according to the distance to which they were carried. The duty was levied in each Pargana or Sub-division of a Zila in the shape of a toll on each load of goods passing through or imported into for consumption, or manufactured therein and exported to other places.

The toll was originally computed with some reference to the value of the articles liable to it. But, for the convenience of the trade as well as the revenue, it was fixed upon certain commodities, regulated by the weight which each vehicle was able to carry. The different descriptions of goods were classed in the rate-books with reference to their place and value in the general scale of taxation.[1] The most general rule in regard to the levy was that payment of the dues once in each pargana exempted goods from further charge, but did not exempt them from payment in the next pargana. On payment of the duty at the chowkee, the chowkeedar gave a receipt showing the amount levied and the nature of the goods on which it was paid, which

[1] The first class consisted of "kirana", that is to say, spices, dyes, drugs, condiments, groceries, etc. The highest rate of duty was levied on this class of goods. Grain and pulse, held the second place and were generally rated at half the "kirana" rate. Cloths came third. Silk cloths paid about double those made of cotton. Although the articles enumerated were many, the rates were comparatively few. *Vide* Report of the Committee on Customs, 1836.

receipt covered the goods to the frontier of the pargana. The lowness of the duty rendered smuggling or evasion unusual, and the penalty for such an offence was consequently trifling.[1] It is worthy of note that the uniformity of the plans on which the transit duties were levied and the great antiquity of the whole system rendered it easy for the trader to acquaint himself with the rates.

The effect of the transit duties proper upon the trade passing through the Company's provinces to and from the sea-coast was light and not quite so vexatious as might have been expected. But there were irregular additions to the duties made by the establishment of other customs stations on the great thoroughfares and cross-roads, and the vexation of the irregular levy was aggravated by the host of petty exactions it gave rise to on the part of numerous agents employed in the collection of the duty.

Besides the transit duties, there were town or consumption duties which yielded some revenue at the principal towns and most of the larger villages throughout the Presidency. In such places, these duties were levied in the shape and generally at the rate of the transit duty. The

[1] In most such cases, double duty was exacted. *Vide* Report of the Committee on Customs, 1836.

general name of these duties was "Gaum-Ootar".[1]

At all the seaport towns of the Presidency, except Surat, the import customs were held to cover the consumption duties on goods coming in by sea. Goods coming in by land paid a rate of duty different from, and generally lighter than the sea import duties At Bombay, a town duty was raised since 1803, the amount being 4 per cent. upon the prime cost of goods. Certificates from the other Presidencies exempting goods from sea customs at Bombay did not exempt them from the town duty. Articles for re-exportation were, in some cases, allowed to be warehoused.

The Bombay town duty was abrogated in 1805, but re-imposed in 1810. The evils and inconvenience of the system under which the town duty was levied led to a new arrangement in 1827, which was revised in 1834.[2]

The duties at the other seaport towns were levied at different rates. In 1834, the town duties in the Bombay Presidency consisted of

[1] The meaning of the term is payment for what is unloaded at a village.

[2] In 1834, a law was passed imposing a duty of 1½ per cent. and allowing no drawback except on exportation to the United Kingdom, and then only to such an extent as should reduce the total duty receivable by Government to 2½ per cent.

$1\frac{1}{2}$ per cent. at Bombay on spices, luxuries, and cloths; at Surat, of certain duties generally under 5 per cent. upon the same and several other articles of domestic consumption; at Ahmedabad and the principal towns in that district, of $2\frac{1}{2}$ per cent. ad valorem on all but 36 articles.[1] At the other towns in Gujrat and the principal ones throughout the Deccan, a duty on consumption was levied like the transit duty on the load or quantity, without much precision as to the value. The duty in all these cases was light in amount.

In Madras, the revision of the Customs Regulations took place in 1781, and again in 1786. The chief feature of this latter revision was the imposition of a duty on imports into Madras at 5 per cent., at a moderate fair valuation, regulated by the market price of the day,[2] with drawback at 4 per cent. on goods re-shipped. This rate of duty, namely, 5 per cent., was considered too high and was reduced in 1789. In 1794, the Court of Directors sent out instructions to the Madras Government to regulate their tariff

[1] The exempted ones consisted of dyes, of raw material used in manufacture, and of necessaries of life (excluding grains).

[2] This valuation was made after deducting, according to long established usage, 10 per cent. on goods imported by Christians and 20 per cent. on goods imported by any other denomination of merchants.

according to the system prevailing in Bengal. And in 1795, a duty of 2½ per cent. levied ad valorem, with advances of 60 per cent. on foreign goods or goods imported in foreign ships, was fixed. On exports also, a 2½ per cent. rate on all goods, with certain exceptions, was levied. In 1798, the Court of Directors directed the Madras Government to levy an additional duty of 1 per cent. on the imports and exports by sea in order to meet the increased marine charges.

In 1803, a general duty of 6 per cent. was established on articles imported by sea into Madras on British or Asiatic or American vessels, and 8 per cent. on goods imported on other vessels.[1]

In 1812, the customs system of the Madras Presidency underwent a further revision, and a general import duty at 8 per cent. was established on goods imported by sea on British or Asiatic vessels at Madras and the subordinate ports. An export duty of like amount was imposed on goods exported from the subordinate ports; but no export duty was levied at Madras, except on goods exported on foreign vessels[2]

[1] In 1793, the customs revenue of the Madras Presidency was £22,300, and in 1808-9, it was £152,938. *Vide* Report on the affairs of the E. I. Co., 1810.

[2] Cotton was made liable to an export duty of 8 per cent., whencesoever exported, being, however, at the same time, declared free from all duty on import.

Goods imported or exported on foreign bottoms were subjected to double the amount of duties payable on goods imported or exported on British bottoms, that is to say, a duty of 16 per cent. on their value.[1]

Regulation II of 1816 was framed under the authority of the Court of Directors and the Board of Control, for encouraging the exportation of the staples and the marine stores of Great Britain to the territories of Fort St. George. Its provisions in respect of the import of certain articles from Great Britain free of duty, or at a duty of 2½ per cent. or 5 per cent. (if the produce of foreign Europe,) were similar to those established in Bengal and Bombay. In like manner, it was enacted that if the established duties on the goods should have been paid at any port subject to the British Government in India, no further duty should be levied on their transit from port to port within the same territories. As regards exports, the rules in respect of drawback on exportation to the United Kingdom were also practically the same as in the other Presidencies. Some alterations were made in these Regulations in subsequent years, which, however, did not involve any change in the principles.

The inland customs of the Madras Presidency

[1] *Vide* Report of the Committee on Customs, 1836.

were practically the same as those of Bombay till 1803. In that year, a number of Regulations was passed, which abolished the whole of the anomalous duties of the indigenous system, and substituted the following duties. First, a general duty of 6 per cent. was imposed on goods imported by sea or by land into the town of Madras, or manufactured within its limits. Secondly, a general duty of 6 per cent. was levied on goods exported from the subordinate ports. Thirdly, there was a general duty of 6 per cent. on goods imported or exported across the frontier of the Madras territories. Fourthly, goods imported into certain provincial towns, or manufactured within their limits, paid a duty of 6 per cent.[1] Goods might thus be subjected successively to three distinct 6 per cent. duties, namely, a frontier, a town, and an export duty making an aggregate of 18 per cent.

These duties were more than the external commerce of the country could well bear. The substitution of an ad valorem frontier duty for a toll fell particularly heavy upon cloth which was at that time manufactured largely in the Madras territories for foreign as well as home

[1] Goods belonging to the Company, cotton and cotton thread, and several articles of minor importance, were exempted from duty.

consumption. The duties on all commodities having formerly been regulated by the bullock load instead of the price, they were as high on articles of little as on those of great value; but being now collected upon the cost, and the bullock load of cloth being equal to 5 or 6 times the value of most other articles, the increase of duty upon it was in the same proportion. A great decrease in foreign consumption consequently ensued. Large numbers of weavers were thrown out of employ, and many migrated to other parts of the country. The effect of the duty was gradually to drive traders and manufacturers out of the town into the neighbouring villages, by which they evaded the duty. But no longer having the ready market they had, when residing in towns, they necessarily carried on the trade at greater expense, which expense fell ultimately on the consumer, no advantage accruing to the Government. The inland customs revenue thus gradually declined[1].

In 1808, the town duty, which had been discontinued for two years, but had not been formally abolished, was revived. It was enacted in that year that the town duty, both at Madras and the provincial towns, should be

[1] Report of the Committee on Customs, 1836.

restricted to goods imported into the towns, goods exported from, or manufactured within their limits, being left free. Goods having paid a frontier duty were exempted from the demand of town duty, or having paid the town duty were exempted from the duty on the frontier. These changes, however, did not much improve the productiveness of the inland duties. In 1812, the Customs Regulations were revised. The principal feature of the new system was that a general duty of 5 per cent., on a fixed tariff valuation, was leviable on every article of consumption except such as were necessary to the poorest class of the people, and a few others on articles of trade produced within the country.[1]

The system continued to be the same for many years. In 1826, the Board of Revenue, after giving a highly favourable account of the state of inland customs, concluded by observing that they "are rather an Excise consumption than mere Customs duties upon trade; and it is this consideration which should be borne in mind when the existing Inland Customs, or rather Excise, comes to be regulated anew".

[1] Cotton, grain, and cotton thread were excepted.

Besides the inland duty, a high consumption duty was levied at Madras and the other important towns on betel, tobacco, ganja, bhang, and goduck.

The following comment of the Customs Committee on this expression of opinion was as appropriate as it was true. They said: "The greatest enemy of the general inland duty can say little worse of it than is here voluntarily avowed by its admirers and advocates. A system of universal excise if administered by Government servants, will always be a system of universal fraud on the revenue and exactions on the people; and if administered by farmers, a system of grinding oppression, under which the payment of legal dues will form the lightest part of the burden."

The establishment of a transit duty throughout a vast extent of open territory, and an excise duty at every village of it, required a prodigious body of officers. The great exactions and frauds of these servants were the subject of repeated complaints by the inhabitants and merchants of the country, and the worst of it was that a large portion of the duties actually levied never reached the treasury of the state.[1]

[1] As the Committee on Customs rightly observed, "It was for the power of exaction that the renters paid largely to Government; the limitation of these powers would necessarily reduce the rents. Thus abuse became equivalent to revenue, and the greater the abuse the stronger was the argument, in a financial view, for maintaining the system."

The loss of revenue led the Government to adopt the system of farming the inland duties. This resulted in some increase in the collections, but added immensely to the oppression of the people.

§ 2. (1833—1857)

Such was the state of things when the Charter Act of 1833 established a centralised form of administration in India, and divested the Presidencies of their legislative independence.

Not long after, a Committee consisting of officers of the Government was appointed for the purpose of revising the Customs and the Post Office Regulations of all the Presidencies, with a view to the encouragement of commerce and the increase of revenue.[1] They were asked to consider the method by which an amount of revenue equal at least to that collected at that time under the general head of customs, might be realised, "on an ameliorated principle". The special attention of the Committee was called to the transit duty, which was "comparatively unproductive to the State, oppressive and vexatious to merchants, and injurious to the people at large". The town duties were also included in the Committee's investigation, which although

[1] This Committee was appointed in the year 1834.

less extensive, were "unavoidably vexatious, bearing indeed a peculiar character of injustice", from the arbitrary manner in which they had been fixed on some places and not on others.[1]

In the meantime, a Report had been submitted by Mr. Trevelyan on the Inland Customs and Town Duties of the Bengal Presidency. In 1835, Lord Ellenborough, President of the Board of Control, invited the attention of the Chairman and Deputy Chairman of the East India Company to this Report, and pointed out some of the evils of the system which then prevailed. Referring to the injury resulting from the system to Indian cotton manufacture, which had of late years been nearly superseded by the importation of British cotton goods, the President remarked, "While the Cotton Manufactures of England are imported into India on payment of a duty of two and a half per cent., the Cotton Manufactures of India are subjected to a Duty on the raw Material of Five per Cent., to a further Duty on yarn of Seven and a Half per Cent., and finally to another Duty of Two and a Half per Cent., if the Cloth should be dyed after the Rowannah has been taken out for it as White Cloth. Thus altogether the Cotton Goods of

[1] *Vide* Extract Separate Letter, 2nd September, 1835.

India may pay Seventeen and a Half per Cent."[1] The efforts made to improve the leather manufactures were counteracted by the heavy duties to which they were subjected. As the President pointed out, the raw hide paid 5 per cent., on being manufactured into leather it paid 5 per cent. more, and when the leather was made into boots and shoes, a further duty of 5 per cent. was imposed; thus in all there was a duty of 15 per cent. Sugar was another instance. On being inported into a town it paid 5 per. cent. in customs and 5 per cent. in town duty, and when manufactured, it paid on exportation from the same town 5 per cent. more; in all 15 per cent.

"The effect of these and similar Duties," observed the President of the India Board, "is virtually to prohibit the manufacture in Towns of all Articles not absolutely required for their own Consumption; to confine Manufactures to the place where the raw Material is produced; and by such Restrictions more than any tax actually levied, to depress the productive Industry of the people."

"Not less than 235 separate Articles are subjected to Inland Duties; the Tariff includes

[1] Letter dated the 18th March, 1835. *Vide* Parliamentary Paper, 51.

almost everything of personal or domestic Use; and its operation, combined with the System of Search, is of the most vexatious and offensive Character, without materially benefiting the Revenue."

"The Power of Search, if really exercised by every Custom House Officer would put a Stop to internal Trade by the delay it necessarily occasions. It is not exercised except for the Purpose of Extortion. The Salary of the Officers employed is too small to secure their Honesty. The System gives Advantages to the great Capitalist over the small Trader. The small Trader cannot afford the necessary Bribes: the Capitalist employs an Agent to negotiate the undisturbed passage of his goods."

"The effect upon national Morals is yet more serious than the effect upon national Wealth. Every Merchant, every Manufacturer, and every Traveller, is, as it were compelled, for the security of his property, or the protection of his personal Comfort and not unfrequently for that of the Feelings of the Females of his Family, to enter into unlawful Collusion with the Officers of Government."

"It is a System which demoralizes our own

People, and which appears to excite the Aversion of the Foreign Traders of Asia."[1]

The revenue actually produced by the internal duties was far from considerable. The total yield in the Bengal Provinces was Rs. 6,81,126. The expenses of collection amounted to Rs. 4,06,986, making the net produce only Rs. 2,74,140. The abolition of these duties was also necessary to redeem the Government from the financial difficulties which beset them, for an increase of taxation being impossible, there was but one course by which revenue could be improved, namely, by giving freedom to internal trade. Lord Ellenborough concluded the remarkable letter with the expression of the confident hope that the time was not distant when the whole of the Indian Peninsula would, as regards commercial intercourse, be "one great Empire".

In 1836, while the Customs Committee were still pursuing their enquiries, the Governor of Agra abolished all the customs-houses established for the levy of transit duties in the interior, except those on the frontiers. The Government of India expressed their disapproval of any steps having been taken without their sanction, but as they found that the effect of these measures was

[1] Letter from Lord Ellenborough to the Chairman and Deputy Chairman of the East India Company, 1835.

beneficial, they decided to extend them to Bengal and Behar. By Act XIV of 1836, all inland transit duties levied within the Presidency of Bengal, except on the Jumna frontier line, were abolished. As this measure entailed a loss of revenue to the Government, a revised scale of import and export duties was adopted. According to the new import schedule, bullion and coin, precious stones and pearls, grain and pulse, animals, ice, coal and coke, and books printed in the United Kingdom or any other British Possession, were free.[1] Marine stores and metals, the produce or manufacture of the United Kingdom or any other British Possession paid 3 per cent.; woollens, 2 per cent., cotton and silk piece-goods, cotton twist, and yarn, 3½ per cent. If any of the articles were the produce of any foreign country, the rates of duty charged were double. Salt was charged at Rs. 3-4 as. per maund; opium, Rs. 24 per seer; spirits, 9 as. per gallon; spices, tea, and some other articles, 10 per cent.; wines and liquors, 10 per cent.; articles not enumerated, 3½ per cent. These were the rates of duty chargeable on goods imported on British bottom; when

[1] An import duty of 3 per cent. was charged on foreign books. The revised scale was calculated to yield an increase of about 8 lakhs. *Vide* Letter from the Court of Directors to the Government of India, dated 7th June, 1837.

they were imported on foreign bottom, they paid at double rates.[1]

As for exports,[2] bullion and coin, precious metals and stores, living animals, books printed in India, opium purchased at Government sales, and cotton wool exported to Europe, the United States, or any British Possession in America, were free. Cotton wool, exported to other places, paid an export duty of 8 as. per maund. Sugar and rum, exported to the United Kingdom or any British Possession were free; but exported to any other place, paid 3 per cent. Grain and pulse of all sorts paid duty at ½ an anna per maund; indigo, Rs. 3 per maund; lac, dye and shell lac, 4 per cent.; silk, raw filature, 3½ as. per seer; silk, Bengal wound, 3 annas per seer; tobacco, 4 annas per maund; and all articles, not enumerated, 3 per cent. These rates were charged for goods exported on British bottom; when they were exported on foreign bottom, double rates were charged.[3]

The Customs Committee submitted several

[1] Schedule A, Act XIV of 1836.

[2] Both the Government of India and the Court of Directors regarded the export duties as injurious to trade, but justified them on the ground of financial necessity. *Vide* Separate Letter, dated the 7th June, 1837.

[3] *Vide* Schedule B, Act XIV of 1836. In the case of exports as well as imports, when the duty was declared to be *ad valorem* it was levied on the market value without deduction.

Reports in 1836. In their Fifth Report they recommended the assimilation of the Bombay and Madras tariffs to the revised tariff which had been recently adopted for Bengal.[1] They pointed out that the want of uniformity in the rates of duty prevalent at the different ports of British India involved the injustice of a system of unequal taxation, caused great inconvenience to the public, and entailed much labour which might otherwise be spared to the custom-house officers. They estimated that the "proposed assimilation would result in a total loss of revenue amounting to about Rs. 10½ lakhs, but they thought that such sacrifice was "preferable to the great inconveniences arising from a variety of local and partial laws."

With regard to the town duties of Bombay and Madras, the Committee reported that both these Presidencies, Madras in particular, stood in an immeasurably greater need of relief than did the Presidency of Bengal. They added that the

[1] In a Letter to the Court of Directors, dated the 19th October, 1836, the Government of India urged the assimilation of the tariffs of Bombay and Madras to that of Bengal, on the ground that this step "would be attended with the utmost benefits to the commerce and productive powers of the entire British India They, however, remarked that such assimilation w of a secondary importance to granting relief to the trade a d industry of the interior from "the very burdensome and oppressive taxation to which these are subject in both the B bay and Madras Presidencies."

various measures adopted from time to time to improve the system had signally failed Despairing, therefore, of amending these duties, they did not hesitate to recommend their total abolition.

By Act I of 1838, the inland transit duties in the Bombay Presidency were abolished, and duties on imports and exports were revised on the lines of the Bengal tariff. Similar measures were, however, not taken for the Madras Presidency till 1844.

Several Acts were passed between 1836 and 1844, dealing with various matters relating to the customs system of India,[1] but no substantial alteration of the tariff was made till 1845.

Owing to the loss of revenue entailed by the abolition of the inland duties in Bombay and Madras, an addition to the customs tariff became necessary.[2] Therefore, import duties at the following rates were fixed on the different descriptions of goods, being the produce or manufacture of the United Kingdom or of any British Possession: Marine stores, metals, woollens, and cotton and silk piece-goods, 5 per cent.; cotton

[1] The more important of these Acts related to the establishment of warehousing ports, the prohibition of imports of foreign sugar and rum, and an increase in the salt duties.

[2] It was estimated that the loss in Bombay would amount to 18 lakhs, and that in Madras, 20 lakhs.

thread, twist and yarn, 3½ per cent. If any of these classes of goods were imported from foreign countries, double the rates were payable. Porter, ale, beer, etc. paid 5 per cent.; wines and liquors, Re. 1 per gallon; spirits, Re. 1-8 as. per gallon; and all manufactured articles unenumerated, 5 per cent. When goods were imported on foreign bottoms, double the rates of duty were charged.[1]

The principles on which the customs duties in India ought to be regulated were discussed by the Court of Directors in an important Despatch, dated the 22nd April, 1846. These principles were: (i) the abolition of duties on the exportation of the staple commodities of India, with the exception of indigo; (ii) the abolition of the duties on the trade between the several Presidencies of India, commonly called the 'port to port' trade; and (iii) the abolition of double duties on merchandise exported or imported on foreign bottoms. In 1848, it was enacted that "no duty shall be charged on any goods lawfully carried from any port in the territories subject to the Government of the East India Company to any other port in the said territories".[2] Another provision of the same Act was that all goods

[1] *Vide* Schedule, Act IX of 1845.

[2] Act VI of 1848.

exported from or imported into any port in British India on foreign bottoms should be charged only with the same rates of duty as would now by law be charged with, if such goods were exported or imported on British bottoms. Two years later, the last relic of the Navigation Laws was swept off the Indian statute-book when the coasting trade of India was thrown open to vessels of all nations.[1] In 1857, the Government of India recommended to the India Board the adoption of measures for removing from the customs tariff all discrimination between foreign and British goods, but this step was not taken until the administration of India had been transferred from the hands of the East India Company to those of the British Crown.

To summarise: During the greater part of the Company's rule in India, Great Britain protected and encouraged her industries against Indian competition, and treated India as the source of raw materials for her industries and as a compulsory market for her industrial products. British imports were admitted into India practically free, or paid only nominal duties; while Indian goods were penalised by heavy duties within the country, and their entry into Great

[1] Act V of 1850.

Britain was either absolutely prohibited or barred by high duties.[1] The inland trade of the country was discouraged, and her foreign commerce was directed for the benefit of England. Not only was any attempt made to foster the indigenous industries, but also the fiscal policy of India was so shaped as to lead to the destruction of those industries which were then in a flourishing state. The action of the British Government which ruled the destinies of India was so palpably unjust that even Englishmen felt it their duty to condemn it in very strong terms. Montgomery Martin, for instance, said: "For many years, great commercial injustice was done by England to British India."[2] Mr. H. H. Wilson, the eminent historian, wrote: "British goods were forced upon her without paying any duty: and the foreign manufacturer employed the arm of political injustice to keep down and ultimately

[1] In 1810, the Directors of the East India Company wrote to the Governor-General of Bengal: "As far as the Use of those Fabrics is superseded in these Kingdoms by the Cotton Manufactures of this Country, aided by high protecting Duties, there seems little prospect of Recovery." Letter, dated the 20th June, 1810 (Parliamentary Paper, 139.)

[2] Indian Empire, Vol. I. p. 560, foot-note. Mr. Martin added: "The late Sir R. Peel admitted the injustice, and adopted measures for its redress, which merged into the low import system, by a misnomer designated *free trade*, which does not exist in any country."

strangle a competitor with whom he could not have contended on equal terms."[1]

[1] Wilson, History of British India, Vol. I, p. 385, foot-note.

The observations of Wilson deserve to be quoted in full. He said: "The history of the trade of cotton cloths with India affords a singular exemplification of the inapplicability to all times and circumstances of that principle of free trade which advocates the unrestricted admission of a cheap article, in place of protecting by heavy duties a dearer one of home manufacture. It is also a melancholy instance of the wrong done to India by the country on which she had become dependent. It was stated in evidence that the cotton and silk goods of India up to this period could be sold for a profit in the British market at a price from fifty to sixty per cent. lower than those fabricated in England. It consequently became necessary to protect the latter by duties of seventy and eighty per cent. on their value, or by positive prohibition. Had this not been the case, had not such prohibitory duties and decrees existed, the mills of Paisley and of Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the powers of steam. They were created by the sacrifice of the Indian manufacture. Had India been independent, she would have retaliated; would have imposed preventive duties upon British goods, and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted her; she was at the mercy of the stranger."

CHAPTER III

FISCAL POLICY OF INDIA UNDER THE CROWN.

§ 1. (1858-1870).

The financial situation in India was rendered extremely embarrassing by the Sepoy War of 1857-58. And no sooner was the administration of the country transferred from the hands of the East India Company to those of the Crown than the necessity was felt for increasing the resources of the Indian Exchequer. By Act VII of 1859, therefore, the customs duties were largely increased. The duties on imported goods were fixed as follows: Cotton thread, twist and yarn, 5 per cent. ad valorem; tea, coffee, tobacco, spices, haberdashery, grocery, provisions, perfumery, and jewellery, 20 per cent.; porter, ale, etc., 4 annas a gallon; wines and liqueurs, Rs. 2 a gallon; spirits, Rs. 3 a gallon; and articles not included in the above enumeration, 10 per cent. ad valorem. Goods for exportation were made

chargeable to the following rates: Grain and pulse of all sorts, 2 annas a maund; indigo, Rs. 3 a maund; lac dye and shell-lac, 4 per cent. ad valorem; and all articles not enumerated, 3 per cent. ad valorem.[1]

It is worthy of note that no discrimination was made in this Act between British and foreign manufactures. This equalization had been recommended by Lord Canning in a letter to the Court of Directors in 1857. In 1859, the proposal received the assent of the Secretary of State, who observed: "The discriminating duties formerly levied on the import into the United Kingdom of goods, the produce or manufacture of foreign countries, have, under the more enlightened legislation of late years, almost disappeared from the British tariff, and it is equally desirable that the same principle should be applied to the commerce of the Queen's dominions in India."[2]

The enhancement of duties gave rise to some opposition in India. A memorial was submitted to the Secretary of State for India by the mercantile community of Bombay in which they urged the "extreme impolicy of placing further imposts upon the trade in British manufactures."

[1] Schedules A. & B., Act VIII of 1859.

[2] Separate Revenue Despatch to India, 7th April, 1859.

They pointed out that competition in the cotton industry had already commenced in India, and added: "England has to oppose superior skill and continuous improvements of machinery to the cheap labour and cheap cotton grown on the spot in India. The result has yet to be seen; but with the heavy burden of 10 per cent. duty imposed upon her production, it is not difficult to foretell what the result will be." [1]

In connection with the revision of the customs duties, Lord Stanley thought fit to discuss some principles which had been urged by the Government of India in 1857. They were: (i) the equalization of the duties on British and foreign manufactures, and the assimilation of the duties on manufactured and unmanufactured goods; (ii) the exemption from duty of all articles producing an inconsiderable amount of revenue; (iii) the abolition of export duties; and (iv) the augmentation of import duties. With the suggestion contained in the first part of (i), Lord Stanley expressed his full and entire concurrence. As for the assimilation of the duties on manufactured and unmanufactured goods, the

[1] This memorial was agreed to at a Town Hall meeting, held at Bombay, and a telegraphic message was sent by the Bombay Government to the Government of India, recommending the exemption from the increased duty of all goods shipped previous to the receipt of the notification. But the exemption was not allowed.

Secretary of State thought that it would throw impediments in the way of indigenous industry which had already suffered much from competition with the British mill industry. The principle involved in (ii) had already been carried into effect in England to a great extent, but it was not thought that there was sufficient reason for extending it to India, as the change would involve considerable sacrifice of revenue. On the question of export duties, Lord Stanley did not defend them in theory, but acquiesced in the opinion that they were so low, and India had so great an advantage over other countries in the production of articles on which the duties were levied, that they could not possibly offer any impediment to exportation. As for (iv), he was of opinion that the rates levied in India were, on the whole, extremely moderate, and he thought an increase might be effected in the import duties on most articles of commerce, and especially on luxuries without the imposition of any serious check on consumption.[1]

The revision of the tariff in 1859 led to the duties on a considerable number of articles being increased from 5 to 20 per cent. This increase was too great, and resulted in the falling off of

[1] Separate Revenue Despatch to India, 7th April, 1859.

imports. Mr. James Wilson, who was appointed Finance Member in 1860, took this as a warning and reduced the rate to 10 per cent. He also abolished the export duties on wool, hemp, hides, flax, jute, and tea.[1] He argued that export duties were impediments in the way of developing the produce of the country, and remarked: "As a general rule, when the products of our soil have to find a foreign market, and in cases in which they enter into competition with those of other countries, the direct effect of export duties must be to place our products in those countries at a disadvantage with their foreign competitors: in point of fact, it cannot be denied that in such cases an export duty falls chiefly upon the producer who cultivates the article."[2] With regard to jute, he expressed the opinion that it was "one of the great raw materials used in England, which competes with the coarse hemp of Russia and the production of which it is much our interest to promote."[3] As for tea, the Government had spent a large sum of money in introducing it as an article of cultivation, and the Finance Member regarded it as one of the few means that existed

[1] These reductions and abolitions involved a loss of £ 82,000.

[2] J. Wilson, Financial Statement, 1860-61.

[3] J. Wilson, Financial Statement, 1860-61.

in India "of attracting European capital and European settlers."[1]

But the Government of India was faced with a large deficit. The Finance Member was, therefore, obliged to make some proposals for the increase of revenue. Saltpetre was at this time produced exclusively in India, and fetched a large price and a high profit. Mr. Wilson thought that this article did not stand in the same position as other articles produced by the cultivators of the soil, and would bear a duty of £ 10 a ton, without any danger of its being interfered with by foreign competition. For some time past, a very small duty had been imposed on the export of this article. Mr. Wilson increased the duty to Rs. 2 a maund as an experiment.[2] Mr. Wilson saw no reason why cotton twist and yarn should be imported at a lower rate of duty than cotton piece-goods. He was not impressed with the argument that it was an earlier stage of manufacture. Nor did

[1] J. Wilson, Financial Statement, 1860-61.

[2] The total quantity of saltpetre exported from India was 8,00,000 maunds. It was, therefore, expected that the increase in the rate of duty would yield £ 180,000, or an additional amount of £164,000. Mr. Wilson proposed to allow the saltpetre refiners to turn to profit the salt which was necessarily made in the process.

He also raised the duty upon unmanufactured tobacco to 8 annas the seer, and manufactured tobacco to Re. 1 the seer. The last change was one which he made with regret, and to which he was driven by sheer necessity. "Necessity," he said, "has no law." Financial Statement, 1860-61.

he attach much importance to the view that a low duty on yarn and a higher duty on cloth encouraged the indigenous weaving industry. He, therefore, raised the import duty on yarn and twist to 10 per cent. The result of these changes was a tariff imposing one uniform ad valorem duty of 10 per cent. on all articles subject to duty, except beer, spirits, wines, and tobacco. A considerable net gain to the exchequer was estimated. And there was another source from which an increased revenue was looked for, viz., tariff valuations. Mr. Wilson thought that the then existing tariff valuations were too low, and he took steps to revise them and also to apply a uniform system of valuation to all India. An increase in the export duty on indigo had been suggested in some quarters, but Mr. Wilson refused to accept the suggestion, because, in the first place, a rival production was supposed to exist in Mexico, and, secondly, it was not desirable to place any impediment in the way of the extension of an industry which was one of the few cultivations in India which attracted "British capital and skill to direct Native labour."[1]

[1] Financial Statement, 1860-61. Mr. Wilson added: "The value of the European gentlemen settled in our country districts cannot, in our opinion, be over-estimated, and it will be the

Next year, the Government of India was faced with a deficit of £6 millions. But this did not prevent the new Finance Member, Mr. Samuel Laing, from proposing the reduction of the duty on imported twist and yarn to 5 per cent. on the ground that it "might not be maintained at a rate which might stimulate the growth of a protected interest."[1] He expressed the wish that he could at once reduce the duty on piece-goods and other manufactures from 10 to 5 per cent, but, unfortunately, the amount of sacrifice was too large to enable him to propose it without imprudence. In the case of yarn, however, the amount was small, the failure of the high duty palpable, and the matter was urgent, because parties were "actually building mills and importing machinery on the strength of the high duty."[2]

So, even in this year of deficit, a revenue of £40,000 was sacrificed in order to maintain what were called the principles of free trade, while an addition was made to the duty on salt, an article of necessity for the poor.

The financial position of the Government

steadfast policy of the Government to encourage it in any fair way it can."

[1] Financial Statement, 1861-62.

[2] Financial Statement, 1861-62.

improved considerably in 1862, and the Finance Member estimated a surplus of £900,000. It was then proposed to reduce the duties on imported cotton goods from 10 to 5 per cent. Some eminent persons, among them the then Lieutenant-Governor of Bengal, thought that a 10 per cent. duty on imported manufactures was one of the most legitimate sources of Indian revenue. But the Government of India were of a different opinion, and their reasons were thus explained by the Finance Member:

"Firstly, the duty applies exclusively to British manufactures. Now as long as England and India remain parts of one great Empire, it is impossible to apply precisely the same rules as if they were separate and independent countries. I have opposed, as sharply as any one, any attempt to ease English finance unduly at the expense of India: but I cannot deny that England having founded the Indian Empire, and being ready to sustain it, and having given up all pretensions to exact a tribute, as Holland does from Java, or Spain from Cuba, and all claim on a monopoly of the Indian market and carrying trade, may, with some reason, ask India so to levy the necessary revenue as not to interfere injuriously with trade between the two

countries... A heavy import duty, therefore, on trade between England and India comes very near in principle to a transit duty between different parts of the same Empire. But secondly, there is another argument, even more conclusive, against the permanent retention of a 10 per cent. duty. Either the clothing of the people is a proper subject for taxation or it is not; if it be so, on what principle can we impose a considerable duty on clothing which comes from abroad and levy no duty at all on clothing produced at home?"[1]

The Finance Member was not, however, prepared to extend the policy of reduction to the other articles of the tariff, and he did not consider a moderate duty, such as 10 per cent., as an objectionable mode of raising revenue. He placed paper on the free list,[2] and reduced the duty on beer, which was "to many European constitutions almost a necessary," by one-half, and the duty on tobacco from Rupee 1 per seer to 20 per cent. ad valorem.[3]

The year continued to be one of financial

[1] Financial Statement, 1862-63. It is worthy of note that memorials had been sent by the Chambers of Commerce at Calcutta, Bombay and Madras urging a reduction of the duty.

[2] Mr. Laing refused to be drawn into the controversy namely, whether a tax on paper was a 'tax on knowledge,' but he, thought while books were on the free list, a dnty on paper was indefensible.

[3] It was estimated that the total effect of the reductions proposed in customs duties was £ 475,000.

prosperity, and, in 1863, some other reductions were made in the rates of duty.[1] No reduction was made on the duty on piece-goods, because the 5 per cent. ad valorem duty, charged on a valuation which was fixed when prices were about half of what they were at this time, really amounted to 2½ per cent., and the so-called protective duty had utterly failed to give protection. The handloom weavers, as Sir Charles Trevelyan stated in the Council, had been "prostrated by the blow which staggered Manchester. They had gone down before the excessive price of the raw material and had migrated or gone upon the Railways or other public works or had given themselves up entirely to agriculture." The Finance Member prophesied that when Manchester set to work again, she would "find her rival local manufacturers converted to an unexpected extent into ready-money customers.[2]

A few years ago, the plan had been adopted

[1] Duties on beer and wine were further reduced. Iron, which was regarded as a material of industry essential to the development of great works in India and which had been charged with a duty of 10 per cent., was now subjected only to a registration fee of 1 per cent. Machinery continued to be on the free list.

[2] Financial Statement, 1863-64. He added: "There has been occasional severe distress, particularly where the manufacture was carried on for general sale at marts, but, on the whole, it is a remarkable proof of the healthy, progressive state of India, that the transition has been got through with so little difficulty." Discussing the causes of the trouble, the Finance Member remarked that "the 40, 50 and even 60 per cent. advance of price paralysed trade, and not the nominal 5 per cent. duty."

in England of confining customs duties to a limited number of principal articles of import. It was suggested in many quarters that a similar system might with advantage be extended to India. But Sir Charles Trevelyan held the view that, under the special circumstances of India, "our policy[1] should be to levy a wide-spread but moderate duty, so as to give free scope to trade in time of peace, and to cherish the increase of a fund which would be our first financial reserve in time of War."[1]

In 1864, the finances of the Government of India showed further improvement, and the general import duty of 10 per cent. was reduced to 7½. The duty on tobacco was reduced to 10 per cent. The loss of revenue arising from these reductions was sought to be balanced by increased receipts from the re-adjusted valuations of piece-goods.

Next year, some important alterations were made in the customs tariff in view of the growth of expenditure and the cessation of the revenue derived from income-tax. The Finance Member

[1] His reasons were as follow: "Whether duty be levied on many articles or on few, all must undergo the usual examination. Nothing, therefore, is gained by limiting duties to a few articles, either in saving expense of collection or in exempting the trade from interference. India is such a vast and imperfectly developed country that articles which hardly appear in one part exist in abundance in another, and entirely new staples occasionally spring into life in answer to some unexpected demand or discovery."

expressed the opinion that Indian exports had in general such a hold on foreign markets that they could easily bear some duty without being seriously checked.[1] He showed, by reference to the trade figures, that the exports of jute, wool, tea, and coffee had increased considerably during the last four years, and he proposed to levy an export duty of 3 per cent. on each of them. Hides, sugar, and silk, which had not increased in the same proportion, were subjected to a duty of 2 per cent. On the other hand, the duty on saltpetre—which was now in a decadent state—was reduced from Rs. 2 to Rupee 1.[2]

There were no changes of any importance in 1866, except that the duty on saltpetre which had been unable to compete with the new manufacture in Europe, was reduced from one Rupee a maund to 3 per cent. ad valorem. The relief, however, came too late.

During this year, the tariff was revised by a Committee with a view to the better classification of the articles, to a re-adjustment of value and charges, and to the removal of duties which

[1] Sir C. E. Trevelyan said: "The old policy of the East India Company was to levy low rates of duty upon exports and imports. However contrary this practice may have been to some received maxims of political economy it was suited to the circumstances of the country." Financial Statement, 1865-66.

[2] An additional duty of 4 annas a maund was also levied on salt in the Bombay Presidency.

were not so valuable to revenue as they might be obstructive to trade. The new classification was far more simple and intelligible than the one it superseded. The Committee adopted the plan of enumerating the articles which were to pay customs duties, any article not enumerated being free. They removed from the column of charge in the tariff schedule upwards of 40 articles, leaving only 97 articles, further reduced to 65 classes of articles upon which duty in future was to be collected. Further, they suggested the abolition of export duties on 88 articles, retaining only 9 classes of articles on the export list. In 1867, the Government accepted most of the recommendations of the Committee. The loss of revenue resulting from the adoption of the new system was met by an increase in the export duty on grain from 2 to 3 annas per maund[1] and an alteration of the wine duties. The Committee had advocated the raising of the duty on grain not only as a legitimate mode of improving the revenue, but also on the ground of its tendency to check the exportation of a staple article of food during a period of famine[2]

[1] The Right Hon'ble Mr. Massey pointed out that, in 1857, in the prospect of scarcity, a prohibitory duty on the exportation of grain had been proposed, but not adopted; in 1859, however, the duty had been raised from half anna to two annas per maund. *Vide* Financial Statement, 1867-68.

[2] Some of the grain merchants of Burma memorialised the

§ 2. (1871-1882.)

The customs tariff was again carefully revised by a Committee in 1869, and, in accordance with their recommendations, the tariff valuations of cotton yarn and piece-goods and other articles were largely reduced in 1871.

In 1873, the Committee of the Bengal Chamber of Commerce suggested, for the consideration of the Governor-General in Council, the expediency of revising the tariff. In January, 1874, the Manchester Chamber of Commerce addressed a memorial to the Secretary of State for India, complaining—

That the duties of 3½ per cent. on yarns and 5 per cent. on British cotton manufactures imported into India were assessed on tariff rates fixed many years ago, when values ruled much higher than at present;

That the tax was found to be absolutely prohibitory to the trade in yarn and cloth of the coarse and low-priced sorts;

That the Chamber were informed that it was proposed to import Egyptian and American cotton (no duty being charged thereon) to manufacture the finer yarns and cloth which would

Secretary of State against the increased duty, basing their opposition "not on the ground of its tendency to check the trade but in the prospect of its decreasing their profits."

thus compete with goods received from England on which duty was levied;

That a protected trade in cotton manufacture was thus springing up in British India to the disadvantage both of India and Great Britain; and

That the duties increased the cost to the native population or at least to the poorest of the people, of their articles of clothing, and thereby interfered with their health, comfort, and general well-being.[1]

The Manchester Chamber of Commerce, therefore, prayed that early consideration might be given to the subject of the duties with a view to their abolition.

In reply to the memorial, it was pointed out by the Government of India that tariff valuations had been revised only a few years ago, and an expectation was held out that another Committee would be convened soon for the purpose. Thereupon, the Manchester Chamber of Commerce reminded the Secretary of State that, in their memorial, they had only incidentally referred to the valuations, and that their main object was the total and immediate repeal of the duties themselves. They added, "A large number of new mills are now being projected,

[1] *Vide* Resolution of the Government of India, Financial Department, 12th August, 1875.

and the revenue from import duties will be consequently diminished. The impost is, therefore, defeating its own object, as well as inflicting an injustice on the consumer and importer."[1]

In November, 1874, a Committee was appointed by the Government to consider the whole question of the tariff. In the Report submitted by the Committee, they recommended a lower scale of tariff valuations. They also recommended the abolition of the export duties on cotton goods, grain and pulse (except rice and paddy), seeds, oils, and spices.[2] As for the import duties, their suggestion was that the duty on some of the metals should be reduced from 7½ to 5 per cent., while the duties on luxuries, wines and iron should be raised, and a 2½ per cent. duty on machinery should be levied. With regard to the duties on cotton manufactures, they observed: "The demand that, because one class of goods, represented by 4 lakhs of duty in all India, has in one part of India, to meet a local competition, the Government shall remit the remaining 77 lakhs which competition

[1] *Vide* Resolution of the Government of India, Finance Department, 12th August, 1875.

[2] Two members of the Committee recorded their dissent from the decision to remit the export duties on the ground that "the substituted taxation would be worse." *Vide* Report, dated 27th February, 1875.

cannot affect, appears to the Committee quite unreasonable, and it is unnecessary even to enquire whether the finances could afford the remission." They also rejected the alternative of an excise duty on Indian mill products as they saw "no need for establishing a cumbersome and expensive excise machinery."[1]

The Government of India accepted, in the main, the recommendations of the Committee in regard to the valuations. They also concurred with the majority of the Committee in the opinion that it was of primary importance to relieve, as far as possible, the export trade of India from taxation and "to stimulate the growth of Indian produce, whether raw or manufactured, for exchange with other countries." They went further, and decided to remit the export duty on tanned hides and skins.

Thus, the entire export trade was freed from all fiscal burdens, except three articles, namely, indigo, rice, and lac. The Government of India did not think it necessary to increase the duties on luxuries as proposed by the Committee. On the other hand, they decided to reduce the general rate of import duty from 7½ to 5 per cent. Of course, the cotton manufacturers of Manchester

[1] Resolution, dated 12th August, 1875.

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On the 30th September, Lord Salisbury sent

[1] Separate Revenue Despatch, No. 6, dated 5th July, 1875. Regarding the possible effect of the proposal, Lord Salisbury remarked: "Some soreness even now will be felt, and more will be expressed, by persons who will trace such a policy to a preference of English over Indian claims. But the irritation will only extend over a wider surface if action is delayed, and may, if the delay be too far prolonged, become a serious public danger".

a telegram to the Viceroy expressing his disapproval of the Tariff Act and practically enjoining the removal of the cotton duties. Sir E. Perry, a member of the Council of India, in his note of dissent to the telegram, said: "It is a violation of the fundamental principles of good government for India that fiscal measures should originate with the local authorities there".

In a Despatch, dated the 11th November, 1875, Lord Salisbury again urged upon the Governor-General in Council the necessity for the speedy removal of the duty on cotton goods which, in his opinion, offered "a false encouragement to the Indian manufacturer," and was "a matter of serious importance both to Indian and Imperial interests."[1] He refused to sanction the import duty of 5 per cent. on long-stapled cotton. Minutes of dissent were recorded by Sir E. Perry and Sir H. Montgomery to the Despatch,[2] but Lord Salisbury was obdurate. A few weeks later, Sir L. Mallet, Under-Secretary of State for India, was sent out to this country

[1] Legislative Despatch No. 51 of 1875. He suggested that the abolition should be gradual for the entire removal of the duty within a fixed term of years.

[2] Sir E. Perry wrote: "I am as strong an anti-protectionist as any of my colleagues, but I am clearly of opinion that the small duty of 5 per cent. which has been imposed for purposes of Revenue should not be remitted until the state of the Indian finances permit the operation."

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[1] Separate Revenue Despatch, No. 6, dated 5th July, 1875. Regarding the possible effect of the proposal, Lord Salisbury remarked: "Some soreness even now will be felt, and more will be expressed, by persons who will trace such a policy to a preference of English over Indian claims. But the irritation will only extend over a wider surface if action is delayed, and may, if the delay be too far prolonged, become a serious public danger".

a telegram to the Viceroy expressing his disapproval of the Tariff Act and practically enjoining the removal of the cotton duties. Sir E. Perry, a member of the Council of India, in his note of dissent to the telegram, said: "It is a violation of the fundamental principles of good government for India that fiscal measures should originate with the local authorities there".

In a Despatch, dated the 11th November, 1875, Lord Salisbury again urged upon the Governor-General in Council the necessity for the speedy removal of the duty on cotton goods which, in his opinion, offered "a false encouragement to the Indian manufacturer," and was "a matter of serious importance both to Indian and Imperial interests."[1] He refused to sanction the import duty of 5 per cent. on long-stapled cotton. Minutes of dissent were recorded by Sir E. Perry and Sir H. Montgomery to the Despatch,[2] but Lord Salisbury was obdurate. A few weeks later, Sir L. Mallet, Under-Secretary of State for India, was sent out to this country

[1] Legislative Despatch No. 51 of 1875. He suggested that the abolition should be gradual for the entire removal of the duty within a fixed term of years.

[2] Sir E. Perry wrote: "I am as strong an anti-protectionist as any of my colleagues, but I am clearly of opinion that the small duty of 5 per cent. which has been imposed for purposes of Revenue should not be remitted until the state of the Indian finances permit the operation."

to discuss the whole subject with the Government of India.

In their reply to the Despatch of the Secretary of State, Lord Northbrook and his colleagues pointed out the financial difficulties which were likely to arise from any measure for reducing the customs duty on cotton manufactures, and they made the significant observation: "After carefully examining the records of the Government of India since the year 1859, we can find no precedent of a measure so seriously affecting the future of Indian finance as the prospective removal of a tax which brings in a revenue of £ 800,000 per annum having been directed by the Home Government." They concluded the letter with the remark that the duty could not be removed "without danger to the Indian finances, and that the imposition of new taxes in its stead would create serious discontent"[1].

Other Despatches to and from India followed. The Secretary of State continued to insist on the abolition of the cotton duties, while the Government of India adhered to their position of reluctance to agree to the

[1] Letter dated 25th February, 1876. Parliamentary Paper (House of Lords) No. 3 of 1876. The whole attitude of the Government of India was thus described in one sentence: "It is our duty to consider the subject with regard to the interests of India; we do not consider that the removal of the import duty on cotton manufactures is consistent with those interests".

proposal. In these Despatches, the question of the relations between the British and Indian Governments was discussed with enthusiasm on both sides[1]. The resignation of Lord Northbrook, however, helped to smooth matters over. And when Lord Lytton became Viceroy, the Secretary of State was able to have his own way. The new Viceroy, soon after his appointment, publicly declared his view in favour of the abolition of the cotton duties. In 1877, the Finance Member, Sir John Strachey, made his attitude towards this question clear in these words: "We are often told that it is the duty of the Government of India to think of Indian interests alone, and that if the interests of Manchester suffer, it is no affair of ours: for my part, I utterly repudiate such doctrines: I have not ceased to be an Englishman because I have passed the greater part of my life in India, and have become a member of the Indian Government. The interests of Manchester, at which some foolish people sneer, are the interests not only of the great and intelligent population engaged directly

[1] The opinion of the Council of India was often divided on this question. For instance, Sir B. H. Ellis and Sir F. Halliday submitted Notes of Dissent to the Despatch of the 23rd May, and Sir E. Perry and Sir H. Montgomery expressed their dissent from the view of the majority regarding another Despatch of the same date.

in the trade in cotton, but of millions of Englishmen: I am not ashamed to say that, while I hope that I feel, as strongly as any man, the duties which I owe to India, there is no higher duty in my estimation than that which I owe to my own country."[1] Financial embarrassments, however, prevented the Finance Member from giving effect to his views at this particular moment.

In the same year, the Secretary of State again called the attention of the Government of India to the customs tariff generally, and to the duties levied on cotton goods in particular, in several Despatches. In forwarding a copy of a memorial from the East India Association[2] protesting against the proposed abolition of cotton duties, and a reply thereto by Mr. R. Jackson on behalf of the Associated Committees of Employees and Workmen in the cotton manufacturing districts, Lord Salisbury observed: "Your Excellency is well aware of the great importance attached by Her Majesty's Government to the gradual reduction of these duties at the earliest

[1] Speech in the Governor-General's Legislative Council on Financial Statement, 1877.

[2] In this memorial it was pointed out that there was no appreciable competition between the cotton goods of Manchester and those of India and it was urged that an impartial Commission be appointed to institute a full and searching enquiry into the whole subject.

period that is not inconsistent with the financial requirements of your Administration."[1] On the 30th August, 1877, a Resolution was adopted by the House of Commons without a division in the following terms :

"That, in the opinion of this House, the duties now levied upon cotton manufactures imported into India, being protective in their nature, are contrary to sound commercial policy, and ought to be repealed without delay as soon as the financial condition of India will permit".

In March, 1878, the Finance Member said in the Governor-General's Legislative Council that the Government of India was bound to give effect to the principles on which the customs legislation of Great Britian was based. These principles were :

"As regards imports,—

(1) that no duty should exist which affords protection to native industry, and as a corollary that no duty should be applied to any article which can be produced at home, without an equivalent duty of excise on the home production ; also that no duty should be levied except for purely fiscal purposes ;

(2) that, as far as possible, the raw materials

[1] Despatch No. 124, dated 22nd August, 1877.

of industry and articles contributing to production should be exempt from customs taxation;

(3) that duties should be applied only to articles which yield a revenue of sufficient importance to justify the interference with trade involved by the machinery of collection.

As regards exports,—

that duties should be levied on those commodities only in which the exporting country has practically a monopoly of production." [1]

He added: "These principles are of general application, but, in the case of India, they possess a peculiar significance. India is a country of unbounded material resources, but her people are a poor people. Its characteristics are great power of production, but almost total absence of accumulated capital. On this account alone, the prosperity of the country essentially depends on its being able to secure a large and favourable outlet for its surplus produce. But there is a special feature in the economic conditions of India which renders it a matter of yet more, and even of vital importance,—this is the fact that her connection with England and the financial results of that connection, compel her to send to Europe every year about 20 millions sterling

[1] Financial Statement, 1878-79.

worth of her products without receiving in return any direct commercial equivalent. It is this excess of exports over imports which, in the language of the economists, is described as tribute."[1]

As a first step towards giving effect to the policy enjoined by Parliament and the Secretary of State, the Government of India exempted those coarser qualities of cotton goods with which the Indian manufactures were likely to compete successfully. This involved considerable financial sacrifice, and that in a year of deficit when the imposition of fresh taxes was found necessary. The duty on foreign raw cotton which had not only been regarded as objectionable in principle, but had proved entirely unproductive, was removed. A number of minor articles, which produced inconsiderable revenue, together with railway materials, were also removed from the tariff schedules.

The relief thus granted to the imported cotton goods failed to give satisfaction, and an official Commission was appointed to enquire into the grievances complained of. In accordance with the recommendations of this Commission, Lord Lytton, in 1879, decided to exempt from duty all

[1] Financial Statement, 1878-79.

cotton goods containing no yarn of a higher number than 30s. At the same time, the valuations were reduced, and it was decided to prevent subjection to octroi duty of cotton or other goods on through traffic. The majority of members of the Viceroy's Executive Council were opposed to this reduction. But the extraordinary step was taken by the Viceroy to overrule the Council under the power vested in him by law for use on emergent occasions.[1] The objections of the dissenting members were based mainly upon financial considerations. This was a time when the finances of the Government were in a most deplorable state owing to the combined effects of war, famine, and loss by exchange. Mr. Whitley Stokes, a member of the Executive Council of the Governor-General, in the course of an admirably written Note of Dissent, urged seven very cogent reasons against

[1] Sec. 41 of the Government of India Act runs thus: "(1) If any difference of opinion arises on any question brought before a meeting of the Governor-General's Executive Council, the Governor-General in Council shall be bound by the opinion and decision of of the majority of those present."

(2) "Provided that whenever any measure is proposed before the Governor-General in Council whereby the safety, tranquility, or interests of British India, or of any part thereof, are or may be, in the judgment of the Governor-General, essentially affected, and he is of opinion that the measure ought to be adopted and carried into execution, or that it ought to be suspended or rejected, and the majority present at a meeting of the council dissent from that opinion, the Governor-General may, on his own authority and responsibility, adopt, suspend or reject the measure, in whole or in part.

the measure. One of his principal objections was that the people of India would be convinced that the step had been taken "solely in the interest of Manchester and for the benefit of the Conservative party." "Of course," he added, "the people of India will be wrong: they always must be wrong when they impute selfish motives to the ruling race.[1] Nevertheless, the evil political results likely to follow from this popular conviction should not be ignored and should, if possible, be avoided." He also objected to the way in which the proposed change in the law was effected, namely, by an executive order. The power vested in the executive to exempt goods from customs duties was merely intended to relieve the Government from the useless and troublesome formality of coming from time to time to the Legislature to make petty alterations in the tariff. But the adoption of such an important measure as the exemption of cotton goods by a mere executive order would, Mr. Stokes wrote, "thus resemble what lawyers call a fraud on the power; and there is, unfortunately, no court of equity to relieve the people of India against it."[2]

[1] Mr. R. C. Dutt's comment on this passage is very appropriate. He says: "The keen satire of the last sentence quoted is not excelled by anything I have ever seen in official literature". *India in the Victorian Age*, p. 413.

[2] Sec. 23 of the Sea Customs Act, 1878 provides: "The Governor-General may, from time to time, by notification in the Gazette of

Another dissentient Note was written by Mr. R. Thomson, who afterwards became Lieutenant Governor of Bengal. He opposed the measure on various grounds, and specially deprecated it because it had "all the appearance of subordination of the reasonable claims of the Indian administration to the necessities of English politics." Sir Alexander Arbuthnot thought that the circumstances of the case were of extreme gravity, and expressed the view that the adoption of such a course was as "unwise and ill-timed" as it was "destructive of the reputation for justice" upon which the prestige and political supremacy of the British Government in India so greatly depended. Sir Andrew Clarke concurred in the Minute of Sir Alexander Arbuthnot.[1]

It is thus clear that the action of the Government was not supported even by all the officials. It is needless to say that it was strongly opposed by the entire Indian community. This feeling was also shared by the leading representatives of the European mercantile community in

India, exempt any goods imported into, or exported from, British India, or into or from, any specified port therein, from the whole or any part of the customs duties leviable on such goods".

[1] Return to an Address of the House of Commons, dated 8th May, 1879.

India. The Madras Chamber of Commerce was of opinion that this was a "most unsuitable time for thinking of sacrificing any of the State's resources under pressure from interested and imperfectly informed foreign manufacturers." The Chamber of Commerce of Calcutta concluded a letter addressed to the Governor-General with the following words: "It will be a source of mortification and disappointment if it be now shown that the opinions and wants of sections of the people of England have more influence in determining the character of the financial legislation in India than the interested and expressed wish of the people under the Government of Your Excellency."

It is worthy of note in this connection that the Finance Member showed by reference to the trade figures that, although there had been a large increase in the importation of goods of finer quality, the imports of the coarser goods had fallen off considerably. He expressed his satisfaction at the great expansion of local industry which had taken place, but he added, "Such facts as those which have been stated show very plainly the duty incumbent on the Government of taking care that the great increase attained in the manufacture of cotton goods by

the Indian mills is not fostered by defiance of the fundamental principles of British commercial policy, or by improper restrictions on other classes of Her Majesty's subjects." [1]

This reduction was, of course, heartily approved by the Secretary of State, but no less than seven members of the Council of India were opposed to it.[2] Sir B. H. Ellis contended that "the remission devised by the Viceroy in opposition to the majority of his Council was not justified by the circumstances of India at the time," and he observed that "virtually the remission has been effected by taxing the people of India." Sir E. Perry wrote: "I think the remission of cotton duties at that period was most inopportune, and that the overruling of his Council by the Governor-General was unconstitutional and a dangerous precedent for the future if allowed to pass unnoticed."

On the 4th April, 1879, the House of Commons passed the following resolution:

"This House accepts the recent reduction in those duties as a step towards their total abolition

[1] The Bombay Mills had, during the last four years, not only increased their exports of yarn and piece-goods to foreign countries by 26 per cent. and 51 per cent. respectively, but had more than doubled their exports to other parts of India.

[2] The Council of India was equally divided on this question, and it was carried only by the casting vote of the President.

to which Her Majesty's Government are pledged."

An important step was taken during this year to free the internal trade of the country from restrictions. The Inland Customs Line, which was one of the greatest reproaches against British administration in India, and which had often been likened to the Great Wall of China, was abolished[1]. The primary object of the erection of the barrier was to safeguard the levy of the duty on salt. But it was also used to safeguard the heavy export duty imposed on sugar produced in British territories. The duty on sugar had been abolished in 1878, and now the salt duty was equalised throughout India with some minor exceptions. The retention of this barrier was thus no longer necessary.

In 1880, the Committee of the Bengal Chamber of Commerce, in a letter to the Government of India, pointed out the anomaly involved in admitting free certain kinds of cotton goods, while levying a duty on large quantities of goods of almost precisely the same character in everything but name, and the hardship which was caused

[1] This Customs Line was first formed on the frontier of the North-Western Provinces in 1843. It was gradually extended until it stretched beyond Attock in the extreme north-west, right across the continent of India over a distance of about 2,000 miles to near Cuttack. It consisted of thick rows of hedges, and was an almost impenetrable barrier.

not by competition between Lancashire and the Indian mills but "by competition amongst Lancashire manufacturers themselves, to secure the full benefit of the Government of India's last act." Sir John Strachey admitted that the state of things was anomalous and objectionable, and he expressed the hope that the time was not hopelessly distant when the ports of India would be thrown open freely to the commerce of the world.[1] But as this would involve considerable loss of revenue, some other source of income had to be found. He rejected in this connection the proposal of a reciprocity between England and India as "unsound in theory, and impossible in practice."

On the question of the export duty on indigo, the Finance Member held a reasonable view. He was warned by the fate which had overtaken the trade in saltpetre, and he considered the danger of competition from indigo of Central America and chemically prepared substitutes as real. This duty, as well as the one on lac, the trade in which had been in a depressed condition, was abolished.

In 1882, the financial position of the country improved, and the opportunity was taken to

[1] Financial Statement, 1880-81.

abolish the whole of the cotton duties and of the general import duties. Only the special duties, namely, those on wine, spirits, and liquors, remained; and so did the duties on arms and ammunition, salt and opium. This, according to Sir E. Baring, was the form which a remission of taxation might "most beneficially assume." The net loss of revenue involved in this abolition amounted to £ 1,108,000. But he regarded the measure as most beneficial to India, and observed: "As an incident of her connection with England, India has a right to profit from English experience and English economic history. That experience and that history show that by the adoption of free trade a country benefits, indeed, all the world, but more specially benefits itself."[1] If there be people who would feel inclined to read English history in a different light and refuse to accept the dictum of the Indian Finance Member, they would, of course, deserve the severest censure for their perversity.

In the course of the discussion of the matter in the Legislative Council of the Governor-General, Maharaja Jatindra Mohan Tagore, an ultra-loyalist, and one who was proud to wear the decorations bestowed on him by a benign

[1] Financial Statement, 1882-83. Sir Evelyn Baring afterwards became famous as Lord Cromer.

Government, regretted that the interested cry of Manchester carried greater weight with the Government than justice to the millions entrusted to their care. He also observed: "As to free trade, it might be all very well in theory, but it must be borne in mind that England, with her advanced notions in commercial matters, had not yet been able to introduce it in practice In the trade of the country with Great Britain, while Indian goods should continue to pay duties to swell the large revenue of the latter, that this poor country should sacrifice any portion of her limited resources for the sake of a theory was what, he must frankly confess, did not commend itself to Native thoughts and ideas."[1]

Thus closed an important chapter in the fiscal history of India. As regards the actual effect of this abolition on local industry, Major Baring said in 1883 that it did not "in any way affect Indian mills." But Indian opinion was almost unanimous in holding that the remission of the duty helped to check the speedy development of the cotton industry in India.

§ 3. (1883-1896.)

There were no changes of any importance in the tariff for several years after 1883. The

[1] *Vide* Proceedings, Viceroy's Legislative Council, 1882.

improvement which had shown itself in the financial position of the country did not last long. A deficit occurred in 1884, and there were several other deficits in subsequent years. The Government were only enabled to make their two ends meet with the help of additional taxation. Besides other taxes, there was a duty on petroleum in 1888. The salt duty was enhanced in the same year, and, next year, the duty on imported spirits was raised. The financial difficulties of the Government were due to the combined effects of war and the fall in the gold value of silver. After a short spell of buoyancy, the situation became again acute in 1892. In 1893-94, there was a deficit of 1¾ crores, and in the following year, Sir James Westland was faced with a deficit of no less than 3½ crores. He, therefore, proposed to suspend the Famine Insurance Grant for the time and to call upon the Provincial Governments for contributions. But as these measures were not likely to meet the full amount of the deficit, he was obliged to bring forward a proposal for levying general import duties at the rate of 5 per cent. The Secretary of State accepted the proposal, but refused to sanction the inclusion of cotton yarn or cotton fabrics among the

articles declared liable to duty. Six members of the Council of India, however, expressed their dissent from this decision of the Secretary of State[1]. Sir Charles Lyall wrote in his minute of dissent: "Hitherto, whenever import duties have been generally imposed in India, the schedule has included cotton goods, and I do not think that their special exclusion can be defended on economic grounds, having regard to the existing situation of the Indian finances. The cotton duties have never been imposed in India for protective purposes." During the debates in the Legislative Council, several members including Mr. Patrick Playfair, Dr. Rash Behary Ghosh, Sir Griffith Evans, Mr. Fazulbhai Vishram, Mr. G. Chitnavis, the Maharaja of Darbhanga, and the Maharaja of Ayodhya urged the inclusion of cotton goods in the list of articles subjected to duty.[2] Mr. Playfair voiced the unanimous opinion of India when he said: "It is impossible to deny that there is a growing feeling in this country that India's interests are being subordinated to Lombard Street on the one hand and Manchester on the other. It is believed that

[1] The dissenting members were A. J. Arbuthnot, A. Alison, D. M. Stewart, H. Rawlinson, C. A. Turner, and A. C. Lyall.

[2] *Vide* Proceedings of the Indian Legislative Council, March 10, 1894. It is interesting to note that the exemption was opposed by all the Indian members together with two European members.

through the influence of the former the Empire has been made to feel, to the full, the effects of the fall in the value of the silver, without being accorded the liberty to deal with the situation as appears to be in her best interests, and that through dictation on the part of the latter, she is now forbidden to find for herself a way out of a difficulty by imposing taxes upon herself." Even Mr. C. C. Stevens, a high Government official, who not long afterwards rose to the position of Acting Lieutenant-Governor of Bengal, expressed his disappointment that a "just, impartial and reasonable method of increasing the revenue" was not adopted.[1] Sir Griffith Evans considered the matter "so scandalous" that he thought it his duty to protest against it in the strongest terms.[2]

But the Government were unable to accept

[1] Mr. Stevens added: "The opposition is practically universal and most thorough and sincere, and cannot be disregarded with safety." Proceedings of the Governor-General's Legislative Council, March, 1894.

[2] He described the position of the Finance Member in these words: "When we find the Financial Member - when we see a man of his grasp and power—grovelling in the dust heaps of the third schedule for 'fish maws' and 'sharks' fins' to meet a deficit of 3½ crores, we feel very much like what the ancient Assyrians must have felt when they saw Nebuchadnazar going on all fours and eating grass under the compulsion of the Higher Powers. It is a pitiable spectacle." Ibid.

On the occasion of the discussion of the Financial Statement for 1894-95, Sir Griffith Evans described the exemption of cotton goods as "inequitable in action as well as inadequate in result." Proceedings, March 27, 1895.

the suggestions of the members in view of the attitude of the Secretary of State and the British Parliament. Various public bodies, representing both Indians and Europeans, and including the Chambers of Commerce, made representations to the Government, protesting against such exclusion. Public meetings were also held in various parts of the country with the same object. But the Tariff Bill was passed in the form in which it was introduced. Agitation, however, continued, and the financial situation of the Government showed no signs of improvement. On the 31st May, 1894, the Secretary of State sent a Despatch to the Governor-General in Council, in which he observed: "If, however, your Government should be forced again to consider the question of imposing duties on cotton manufactures, it will be requisite to ascertain what classes of imported cotton goods came into competition with Indian manufactures of the same kind. Among imported cotton goods, there will probably be some classes of goods which directly compete with goods produced in India, some which partly compete, and some which practically do not compete at all. It would be for your Government, after full enquiry, to decide how far you could distinguish between these

three classes of imported cotton goods; and then to consider by what measures you could deprive any duties, that might be imposed, of a protective character. This object would be obtained either by exempting from duty those classes of imported goods which clearly and directly compete with Indian manufactures; or by levying on the latter an excise duty equivalent to the import duty on corresponding goods from abroad."[1]

In their reply to this Despatch, the Government of India expressed their readiness to accept an excise duty as a solution of the difficulty, and forwarded a Minute by Sir. J. Westland in which he recommended the imposition of import duties at the rate of

(*a*) 5 per cent. ad valorem on all cotton piece-goods;

(*b*) $3\frac{1}{2}$ per cent. ad valorem on all cotton yarn of counts above 24;

and (*c*) an excise duty of $3\frac{1}{2}$ per cent. ad valorem on all machine-made cotton yarn, produced at mills in British India of counts above 24.

Indian-made piece-goods would thus pay excise duty on the yarn of which they were woven, whenever such yarn was finer than 20.

[1] Parliamentary Paper, 7602.

Sir Henry Fowler accepted these proposals with two amendments, namely, that the rate of import duty on yarn should be 5 per cent., and that the duty on yarn should begin with counts above 20. These proposals were embodied in Bills and placed before the Legislative Council of the Governor-General in December, 1894.

The proposal to levy an excise duty was opposed by the Bombay Mill-Owners' Association and the Bengal Chamber of Commerce and other public bodies. Sir Griffith Evans, Sir Patrick Playfair, Mr. Fazulbhai Vishram and several other members protested against the levy of an excise duty[1]. But Sir James Westland told the Council that the measure "was recommended to us by superior orders and orders which we are obliged to obey."[2]

[1] Proceedings of the Governor-General's Legislative Council, 1894. Sir Griffith Evans regarded the excise duty as "onerous, unprofitable, and harassing to trade", and he thought "no sufficient case had been made out for the imposition of this excise." Sir P. Playfair said: "In itself it will be regarded as pernicious, or to take the mildest view, not promotive of revenue or economy", and as a principle "it may take away from this Council all independence and its representative character".

Mr. Fazulbhai Vishram moved an amendment to substitute '24' for '20', and though it was supported by all the Indian members and two European members, it was lost. Mr. C. C. Stevens spoke in favour of the amendment, but refrained from voting.

[2] Sir James Westland added: "I freely admit that it is because the Secretary of State, or rather Her Majesty's Ministers, have laid upon us the condition of accompanying that measure with a measure for excise duties, that we have brought forward this bill."

The duties of the members of the Legislative Council were incidentally discussed on this occasion. Sir Griffith Evans remarked that when the Legislative Council met, all members were at liberty to look at any matter from a purely independent point of view.

The concession of a duty on yarn did not satisfy the cotton manufacturers of Manchester, but only egged them on to further demands. On the 21st February, 1895, during a debate in the House of Commons concerning Indian cotton duties, the Secretary of State gave the pledge that, if the duties could be proved to have had any protective character, Her Majesty's Government would, in concert with the Government of India, consider the matter with a view to avoiding "protective injustice." Several representations were made to the Secretary of State, and in December, 1895, an influential deputation of Lancashire operatives, employees, and M.P.'s, and of the Scotch dyers and printers, waited upon Lord George Hamilton. The new Secretary of State showed himself even more sympathetic than his predecessor to the claims of Manchester, and he assured the deputation of his firm resolve

But Sir James Westland said: "That may be the case with members of the Council who are not also members of the Government, but I do not know any foundation for the theory that, when your Excellency calls together the additional members of Council to advise the Government, the Government thereby acquires an authority which, in other respects, it does not possess. The orders of the Secretary of State, though they may not be a sufficient excuse for the additional members of this Council voting against what is recommended to us, yet are sufficient for us who are members of the Executive Council, and who exercise our power not by any authority of our own, or in our own name, but in the name of Her Majesty." Proceedings of the Legislative Council, 20th and 27th December, 1894.

to accord to them "perfect equality of treatment." Telegraphic communications between the Secretary of State and the Viceroy followed, and, in February, 1896, two Bills were passed in the teeth of non-official opposition both in and outside the Council, by which a direct excise duty of 3½ per cent. was levied on all cotton piece-goods woven by the Indian mills, the import duty of 5 per cent. was reduced to 3½ per cent., and all duty on yarn, whether imported or manufactured, was abandoned.[1]

It is worthy of note that, when the matter went to the Council of India, two of its members took strong exception to the measures that had been just enacted. Sir James Peile protested against the subjection of the whole of the Indian mill cloth to excise. He did not think that this excise was countervailing, for the Indian mill cloth co-existed, but did not compete, with the Lancashire fine goods, and he concluded his Note with the significant observation: "I desire to relieve myself from all responsibility for leaving to their operation Acts which I regard as not logically defensible, and therefore politically

[1] Proceedings of the Indian Legislative Council, January and February, 1896. The views of the various Chambers of Commerce and other public bodies and the opinions expressed at public meetings are to be found in Parliamentary Paper No. 8078 (of 1896).

unwise."[1] Sir Alexander Arbuthnot expressed his entire concurrence in the opinion of Sir James Peile.

Thus ended the second stage in the controversy over duties on cotton goods. But it was not the final solution of the question. The bitterness of public feeling did not subside with the lapse of time. So far, however, as the Government was concerned, the matter was not re-opened till twenty years had elapsed from this date.

§ 4. (1897-1914.)

No further alterations were made in the tariff till 1899, when Sir James Westland proposed to open an entirely new chapter in the fiscal history of India[2]. The object of the Bill, which he introduced, was to confer on the Government the power to impose countervailing duties in the case of bounty-fed sugar, imported from European countries. These duties were to be in addition to the ordinary tariff, and the rates were to be equal to the amounts of bounties which were granted by foreign nations[3]. With regard to

[1] Parliamentary Paper 229 of 1896.

[2] Mr. P. Ananda Charlu welcomed the bill, and said: "I consider it to mark a very important epoch by way of a departure in the fiscal legislation of this country." *Vide* Proceedings of the Governor-General's Legislative Council, 1899.

[3] As Sir James Westland pointed out, the Bill was copied in its wording from the United States Act of 1897. There was, however, a difference. In the United States, the Act imposed the duty, but

the principle of the Bill, Sir James Westland said that it was not a measure which condemned the action of foreign countries in putting bounties on their sugar. He added: "We only wish to protect our own industry, and we claim the same right to preserve our industry in this country as foreign nations no doubt claim to preserve and encourage the sugar industry and sugar cultivation in their own territories."

This was really a measure of defence, but the acceptance of the principle of protection was, indeed, a marked departure from the policy so far pursued by the Government of India. Of course, there was in this case no conflict of interests between England and India. On the other hand, here was an opportunity not only for benefiting some of the English Colonies but also opposing, in an indirect manner, the economic policy of two of the most powerful continental nations. It has also been a matter of doubt whether the initiative in this measure was taken by the Government of India or whether the policy was enjoined by the Government of England "with Imperial, rather than Indian, objects in view."[1]

the Executive was given the power to prescribe the rules. In this case the Indian Legislature gave power to the Executive Government to impose the necessary duties as well as to lay down the rules and regulations.

[1] *Vide* J. W. Root, Trade Relations of the British Empire, p. 162.

The imposition of the duty, however, did not produce the expected result, and the imports of beet-sugar continued to increase. The reason was that, in addition to the bounties granted by the Governments, sugar produced in Austro-Hungary and in Germany enjoyed other bounties created by the operation of the kartel system. These kartels made large profits on the sugar sold at home, which enabled them to export the surplus produce at very low prices, even below the cost of production.[1] In 1902, therefore, additional duties on German and Austro-Hungarian sugar, at Rs. 2-13-9 and Rs. 3-3-9 per cwt. respectively, were imposed.[2] It was originally intended that this provision was to expire on the 31st August, 1903, but the period was subsequently extended.

During the next few years, no changes were made in the tariff, except increases in the duties on liquors and reductions in the salt tax. In 1910, the shrinkage in the opium revenue and the necessity for aiding the bankrupt Government of Eastern Bengal and Assam compelled Sir Guy

[1] Mr. M. C. Turner pointed out, in the course of the debate on the subject in the Legislative Council, that there were other indirect bounties, such as preferential rates in the matter of sea and rail carriage. *Vide* Council Proceedings, 1902.

[2] These rates were in accordance with the principles laid down in the Brussels Convention of 1901.

Fleetwood Wilson to propose fresh taxation. The customs duties on liquors, tobacco, silver, and petroleum were raised. The Finance Member disclaimed the slightest inclination towards a protective customs tariff. He also expressed the hope that he would not be "charged with framing a Swadeshi budget." But a very vigorous agitation was started, immediately after the passing of these measures, on behalf of the tobacco trade in England with the result that, in the following year, the Finance Member was compelled to reduce the duty on imported tobacco by one-third. In order to make up for the loss of revenue, the duty on petroleum, an article of necessity for the poorer classes of the population, was further increased.[1]

During this period of over fifty years, India was compelled to follow the principle of free trade, ostensibly on the ground of theory, but really for the benefit of England, and in opposition to the wishes not only of the people, but, sometimes, of the Government of India. She was not allowed to develop any industrial enterprise if it happened to come in competition,

[1] These proposals were strongly opposed by the non-official members, particularly by Mr. M. Haque and Mr. G. K. Gokhale, but they were carried by an official majority. *Vide* Proceedings of the Indian Legislative Council, 1912.

even in a remote and indirect way, with any English industry. This unjust treatment accorded to India, while she was in a position of helpless political dependence upon England, was often the subject of adverse comment at the hands of fair-minded Englishmen. Dr. Cunningham, for instance, wrote, "Ireland and India have been forced, under compulsion, to submit to free trade without being consulted, and for the sake of English interests; in both these cases, economic dissatisfaction is associated with political unrest."[1] Nor did it escape the observation of foreigners. Fuchs, a German economist, said: "It is King Cotton—the industry of Lancashire—whose interests have been most to the front."[2]

[1] The case against Free Trade, p. 87.

[2] Trade Policy of Great Britain, p. 272.

CHAPTER IV

THE FISCAL SYSTEM OF THE WAR PERIOD AND AFTER

§ 1. (1914-1919.)

On the eve of the European War of 1914, India was in a fairly satisfactory financial position. But no sooner did hostilities commence than the impact was felt in India, situated though she was many thousand miles from the theatre of operations. The Government were able, however, to meet the financial strain without resort to fresh taxation for the first year and a half of the war. But as the deficiency in the revenue tended to assume a more or less abiding character, additional taxation became necessary. In 1916, an augmentation of revenue was sought to be obtained from various sources, including customs. The general import duty was raised from 5 to 7½ per cent. *ad valorem*, the duty on sugar was increased to 10 per cent., that on iron and steel to 2½ per cent., and on other metals to 7½ per cent.

The free list was considerably curtailed, and some of the articles which had previously been imported free were now subjected to a duty of 2½ per cent., while others were taxed at 7½ per cent. The special duties on arms, liquors, tobacco, and silver manufactures were also considerably enhanced. The salt duty was raised from Re. 1 to Rs. 1¼ per maund. Finally, an export duty was levied on two important staples, namely, jute and tea. The duty on cotton goods, however, was left untouched. Anticipating an adverse comment on this policy of partial treatment, Sir William Meyer said: "Well, the Government of India have not failed to represent their view that there should be a material increase in the cotton import duties, while the cotton excise, which has formed the subject of such wide-spread criticism in this country, should be left unenhanced, subject to the possibility of its being altogether abolished when financial circumstances are more favourable. But His Majesty's Government, who have to consider the position from a wider stand-point, felt that the raising of this question at the present time would be most unfortunate, as it would provoke a revival of old controversies at a time when they specially desired to avoid all contentious

questions, both here and in England, and might prejudice the ultimate settlement of the larger issues raised by the war. His Majesty's Government feel that the fiscal relationship of all parts of the Empire as between one another and the rest of the world must be reconsidered after the war, and they desire to leave the question raised by the cotton duties to be considered then, in connection with the general fiscal policy which may be thought best for the Empire, and the share, military and financial, that has been taken by India in the present struggle."[1]

The proposals for increasing the customs duties met with the approval of the Indian Legislative Council. The only objection which was taken was with regard to the salt duty. As for the exclusion of cotton goods from the additional burden, although the action of the Government gave rise to keen disappointment, the explanation offered by the Finance Member went some way towards disarming criticism. Almost all the non-official members of the Council gave expression to the sense of injustice which had been done to India by the partiality shown to the cotton manufacturers of England. Many of them, however, were unwilling to embarrass the

[1] Financial Statement, 1916-17.

Government at a critical moment. But Sir Ibrahim Rahimtoola moved an amendment for raising the $3\frac{1}{2}$ per cent. import duty on cotton goods to 6 per cent. In the course of his speech on the subject, he said: "It appears to me that it is rather hard that when the Government of India want the revenue, when the country is willing to agree to give them that additional revenue from a source which is agreeable to themselves, that they should be debarred from doing so, and in that way necessitate the proposal for the increased salt tax."[1]

In May, 1916, an Industrial Commission was appointed by the Government of India, but, strangely enough, the tariff question was especially excluded from the scope of its enquiries. In the following year, the financial stress of the war increased, which necessitated further taxation. Various steps were taken to improve the revenue, and customs came in once more for their share in the scheme. The export duty on jute, both raw and manufactured, was doubled. The import duty on cotton goods was fixed at $7\frac{1}{2}$ per cent., which was the general tariff rate, but the excise duty on cotton was left at $3\frac{1}{2}$ per cent. Of course, this last measure was taken with the

[1] Proceedings of the Indian Legislative Council, 1916.

sanction of the Government of England, which was accorded to enable India to make an adequate contribution towards the expenses of the war. The proposal was welcomed by the non-official members of the Indian Legislative Council.[1]

§ 2. (1919-1922).

In September, 1919, the Government of India introduced a Bill which sought to impose an export duty of 15 per cent. on hides and skins, exported to any part of the Empire. The object was to ensure that the hides and skins of India should be converted into fully tanned leather or articles of leather so far as possible in India, and failing this in other parts of the Empire, instead of being exported in a raw state for manufacture in foreign countries. In the course of his speech introducing the Bill, Sir George Barnes, the Commerce Member, said that, before the war, the hide trade had been monopolised by the Germans, and the tanning industry of India had been of comparative insignificance, but great changes were brought about by the war. "We want," Sir George added, "to keep this industry alive,

[1] One member said: "The principles of taxation devised in the Bill is a distinct indication of the sign that the Government is more and more in touch with the popular opinion, and that it has come to the conclusion that its futuro policy in the matter of taxation shall be, as far as practicable, in the direction of a well considered system of protective tariff."—*Speech of the Hon. Mr. M. B. Dadabhoy in the Legislative Council, 7th March, 1917.*

and we believe that in this case protection in the shape of a 15 per cent. duty is justifiable and effective". But, in reality, the Government wanted to kill two birds with one stone. The second object which the Government had in view was described by the Member in charge of the Bill in these words: "Though Indian tanneries have enormously increased in number during the past three years, they can only deal with a comparatively small proportion of the raw hides and skins which India produces, and it is to the advantage of India and the security of the Empire generally that this large surplus should, so far as possible, be tanned within the Empire, and with this end in view the Bill proposes a 10 per cent. rebate in respect of hides and skins exported to any place within the Empire."[1] Sir George Barnes did not, however, make it clear how the manufacture into leather of hides in a country within the Empire but outside of India could be of advantage to India herself. Nor did he say which of the two objects mentioned by him was regarded by the Government as the more important.

The first part of the Bill was welcomed by the Indian, as well as the European, members of the

[1] Proceedings of the Indian Legislative Council, September, 1919.

Council. Mr. W. E. Crum supported the Bill on behalf of the Bengal Chamber of Commerce, and, in doing so, he reminded the Council that, as long ago as 1917, a Conference of the Chambers of Commerce had recommended that "any industries which can be regarded as key industries should be supported."[1] Pandit Madan Mohan Malaviya, while supporting the export duty of 15 per cent., saw no justification for the other proposal, namely, the grant of a rebate of 10 per cent. Another non-official member of the Council, Mr. B. N. Sarma, congratulated the Government most heartily upon the departure from the economic policy which had so far been pursued by it, but moved an amendment to delete the second part of the Bill on the ground that it raised, in an indirect manner, a large and important question, namely, the question of preference between the various parts of the Empire. To this objection Sir George Barnes replied that the rebate was not proposed as part of any general scheme of Imperial Preference.[2]

In their Report on Indian Constitutional Reforms, Mr. Montagu and Lord Chelmsford incidentally referred to the question of Indian

[1] Proceedings of the Indian Legislative Council, March, 1919.

[2] *Ibid.*

fiscal policy. They said, "Educated public opinion ardently desires a tariff. It rightly wishes to find another substantial base than that of the land for Indian revenues, and it turns to tariff to provide one. Desiring industries which will give him Indian-made clothes to wear and Indian-made articles to use, the educated Indian looks to the example of other countries which have relied on tariffs, and seizes on the admission of even free traders that for the nourishment of nascent industries a tariff is permissible . . . He believes that as long as we continue to decide for him we shall decide in the interests of England and not according to his own wishes; and he points to the debate in the House of Commons on the differentiation of the cotton excise in support of his contention."

The Joint Select Committee appointed by Parliament to consider the Government of India Bill of 1919 recommended the question of the tariff as a "special case of non-intervention." "Nothing," they said, "is more likely to endanger the good relations between India and Great Britain than a belief that India's fiscal policy is dictated from Whitehall in the interests of the trade of Great Britain. That such a belief exists at the present moment there can be no

doubt. That there ought to be no room for it in the future is equally clear. India's position in the Imperial Conference opened the door to negotiation between India and the rest of the Empire, but negotiation without power to legislate is likely to remain ineffective. A satisfactory solution of the question can only be guaranteed by the grant of liberty to the Government to devise those tariff arrangements which seem best fitted to India's needs as an integral portion of the British Empire. It cannot be guaranteed by statute without limiting the power of veto which rests in the Crown; and neither of these limitations finds a place in any of the statutes in the British Empire. It can only, therefore, be assured by an acknowledgment of a convention. Whatever be the right fiscal policy for India, for the needs of her consumers as well as her manufacturers, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia, New Zealand, Canada and South Africa. In the opinion of the Committee, therefore, the Secretary of State should, as far as possible, avoid interference on this subject when the Government of India and its Legislature are in agreement, and they think that his intervention, when it does take place,

should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party." [1]

Lord Curzon endorsed this view when, speaking in support of the third reading of the Bill in the House of Lords, he observed: "For the first time a responsible and representative British Committee, charged with shaping a government for India, have conceded to India almost absolute freedom of fiscal policy. They have laid down the policy and the principle that she ought to be free to exercise, in respect of her tariffs, and so on, the same degree of liberty as is enjoyed by the great Dominions of the Crown. This is a change so fundamental and fraught with such stupendous consequences that I am amazed at the little attention it has attracted in this country."[2] These expressions are so clear and emphatic that there could not be the slightest doubt as to the intentions of Parliament as well as of the

[1] Report of the Joint Select Committee of Parliament, p. 11.

[2] Lord Curzon added: "It is a starting-point to a future career in the growth of self-governing institutions in India the importance of which cannot be exaggerated. I am the last to complain of it, because in all the controversies about these Cotton Duties, and so on, I have always fought the battles of India. Therefore, I am delighted to see my views and theories prevail." Debate in the House of Lords, Dec. 19, 1919. *Vide* P. Mukherji, *Indian Constitution.*

Executive Government of England in regard to this subject.

In 1921, the Government of India were faced with a large deficit.[1] The Finance Member was thus obliged to bring forward fresh proposals for taxation. Among other measures, he proposed a large addition to the customs tariff. In the first place, he proposed to increase the general *ad valorem* duty of 7½ per cent. to 11 per cent., except in the case of matches and certain articles of luxury, but inclusive of cotton manufactures. The excise duty on cotton was to be left at 3½ per cent. He estimated that this measure would produce an additional revenue of Rs. 384 lakhs. This measure was, of course, proposed after a previous reference to His Majesty's Government in order to make it clear to them that the sole object of the Government of India was the production of additional revenue, and that they had no ulterior motive of a protective or any other kind. "It would," said Sir Malcolm Hailey, "ill become this country, at a time when the senior partner of the Empire, upon whom fell by far the severest burden of the war, both in blood and money, is anxiously endeavouring

[1] This was due to various causes, the principal ones being the exchange difficulty and increased military expenditure.

to face the most acute problems of unemployment and trade distress, to requite the services which Great Britain has rendered to the rest of the Empire, including India, by taking the first opportunity to introduce a measure of protection against her manufactures. We made it clear, therefore, that it is solely our financial necessities, and no new departure of fiscal policy, which have obliged us to propose to the legislature this particular measure. We trust that our fellow-subjects in the United Kingdom will appreciate this and will acquit the Indian Government and Legislature of any desire to use their newly conferred liberty of action to injure the country which only a year ago conferred that liberty upon them."[1]

In view of the advantage which was thus to be gained by the weaving and spinning mills, the concession of the free import of machinery and stores required for use in these mills was withdrawn, and most of such articles were made liable to duty at 2½ per cent.

The second customs measure proposed by the Finance Member was the levy on matches of a specific import duty of 12 annas per gross boxes in place of the *ad valorem* duty of 7½ per cent.

[1] Financial Statement, 1921-22.

His third proposal was an increase of duty on liquors. The fourth measure was the raising of the general *ad valorem* duty of 7½ per cent. to 20 per cent. in the case of certain articles of luxury, such as motor-cars, motor-cycles and tyres (excluding lorries), silk piece-goods, fire-works, umbrellas, clocks and watches, musical instruments, cinematograph films, etc. Fifthly, the import duty on foreign sugar was proposed to be raised from 10 to 15 per cent. The Finance Member's last tariff proposal was that duties on tobacco, other than manufactured, be raised to 50 per cent.

While strong objection was taken to the other proposals for taxation, almost all the tariff proposals were accepted by the Legislature.[1]

The action of the Indian Government and the Indian Legislature gave rise to much consternation in Lancashire. The Manchester Chamber of Commerce appointed a deputation to wait upon Mr. Montagu, Secretary of State for India, who, in the course of his reply, at the outset, disposed of the impression that the Government of India had taken the first chance of a new-found liberty to pay off an old score and to impose a

[1] It should be noted that the composition, powers, and responsibilities of the Indian Legislature were different at this time from what they had been a few months before.

duty with the main object of protecting Indian cotton goods and of injuring the Lancashire trade. He then pointed out that the expenditure of the Government of India fell short of their revenue by 18½ crores. After examining the other sources of increased revenue, and showing their inadequacy, Mr. Montagu continued: "Now when we come to customs, again they have not singled out cotton. There is to be a general rise in the whole customs duties right away through the gamut of them, from 7½ per cent. to 11 per cent., with a special rate on luxuries, which goes up to 20 per cent. You are here to complain to-day of a very small proportion of the Indian Budget—something which produces $\frac{1}{15}$th of the total increase, and that what really you are asking is either that cotton should be left out of the general increase of customs, which it has been absolutely necessary to impose, or in the alternative, that a corresponding excise should be put upon cotton, whereas it is not put on any other of the goods on which there is going to be an increased customs duty. It is only about cotton that we have this question raised."

Mr. Montagu added: "It would be *theoretically impossible for me to veto the Bill,*

in which these duties are contained, when it comes home for sanction. Actually it is, I would submit, absolutely impossible. I cannot veto part of a Bill, I must veto the whole Bill; and I should, therefore, leave the Government of India with none of their increased revenue to meet their increased charges." He then referred to the opinion of the Parliamentary Joint Committee and Lord Curzon's speech in the House of Lords, and observed: "After that Report by an authoritative Committee of both Houses and Lord Curzon's speech in the House of Lords, it is absolutely impossible for me to interfere with the right—which, I believe, was wisely given and which I am determined to maintain—the right of the Government of India to consider the interests of India."[1] A little later, the Secretary of State sent an important despatch to the Government of India, in which he said that His Majesty's Government had accepted the recommendation of the Joint Committee on the question of fiscal autonomy for India.

[1] Addressing the Labour members of the deputation, Mr. Montagu said that the Labour Party gave valuable support to the passage of the Bill but they always protested that they took it because they could not get anything better—that they wanted more liberty for India, that the time had come to concede to her, if not complete self-government, something very near it. "Now when, despite the limitations of the Bill, you concede to her the right to mould her own fiscal destinies, a section of the Labour Party feels that those rights and liberties which she has achieved are even too large for the well-being of the interests that they are here to represent to-day."—*The Times, 26th March, 1921.*

In October, the Government of India announced the appointment of a Fiscal Commission, with Sir Ibrahim Rahimtoola as Chairman, "to examine with reference to all interests concerned, the tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations."

During the financial year which closed on the 31st March last, the revenue of the Government fell short of their expectations, while the expenditure largely exceeded the estimates. And another large deficit was expected to occur in the current year. The Finance Member, being unwilling to budget for a deficit, made various proposals for increasing the revenue, and his first thoughts naturally turned towards the customs. In view of the fact that a Fiscal Commission was sitting, he would have preferred to await the decisions of that body before proposing any further alteration of the tariff. But the needs of revenue were urgent, and there was no escaping the conclusion that "the pressure of financial necessity must in any case inevitably involve the raising of our customs duties, purely for revenue purposes, irrespective of what the effect may be in the case of any

particular tariff-head in the direction of protection, Imperial Preference, or free trade." Sir Malcolm Hailey was careful also to add that he had endeavoured to limit his proposals in such a way "as not to involve any important change of principle in the existing fiscal arrangements."[1]

The proposals of the Finance Member were the following: To raise the general import duty on all articles including cotton goods to 15 per cent.; to increase the cotton excise duty from 3½ to 7½ per cent.; to raise the duty on machinery, iron and steel to 10 per cent.; to increase the duty on foreign sugar to 25 per cent.; to double the duty on matches; to increase the duty on petroleum; to increase the salt tax from Rs. 1¼ to Rs. 2½ a maund; to levy a duty of 5 per cent. on imported yarn; to raise the duties on luxuries to 30 per cent.; and lastly, to enhance the duties on alcoholic liquors except wines, by approximately 20 per cent. The Finance Member estimated that the total of revenue obtainable from the proposed increase in customs would amount to Rs. 1,490 lakhs.[2]

Some of the proposals of the Finance Member did not find favour with the Indian Legislature.

[1] Financial Statement, 1922-23.

[2] *Ibid.*

The two most important modifications introduced into the budget both related to cotton goods. The Legislative Assembly refused to give its sanction to the increase in the excise duty on cotton manufactures, and, on the motion of Mr. Rhodes, President of the Bengal Chamber of Commerce, the import duty on cotton goods was left at 11 per cent.[1] A few days later, that is to say, on the 29th March, 1922, a deputation of Members of Parliament and others representing cotton textile interests, headed by Sir John Randles, M.P., was received at the India Office by the Secretary of State and the Parliamentary Under-Secretary for India. Lord Peel welcomed the deputation, but was obliged to leave the meeting in consequence of a sudden Cabinet engagement. He asked Lord Winterton to take charge of the proceedings in his absence.

Representations were made by the deputation that the terms of the convention recommended by the Joint Select Committee of Parliament of the Government of India Bill of 1919 to the effect that the Government of India, acting in agreement with the Legislature, should be conceded the same fiscal autonomy as is possessed by the

[1] The proposals for the enhancement of the salt tax and the duty on kerosine were also objected to. *Vide* Proceedings of the Indian Legislative Assembly, March, 1922.

Dominions, travelled beyond the intentions of the Government of India Act of 1919, to which alone Parliament was committed. It was further argued that the indigenous cotton industry of India had been able to make headway against competition even in the days when the import duty on cotton was balanced by a countervailing excise duty of the same amount, and therefore the industry itself did not stand in any need of protection. It was also stated that whereas Indian politicians of all classes were admittedly protectionist, the cotton duties were bound seriously to affect the poorest class of the population. The suggestion was made that the revenue derived from the cotton import and excise duties would be equally secured if the import duty were lowered from 11 per cent. to 6 per cent., and the excise duty raised from 3½ per cent. to 6 per cent. In general it was urged that the Government should recognise the grave dissatisfaction caused in Lancashire by the suspicion that the Indian cotton duties were dictated by a clique of wealthy mill-owners in India, and that the Government should ensure that a true balance was held between all parties interested and should undertake that the representations made

to them should receive their close attention in co-operation with the Government of India.

Lord Winterton, replying on behalf of the Secretary of State, indicated as regards the convention recommended by the Joint Select Committee that ultimate self-government must contain fiscal autonomy as an essential feature, and that, therefore, if and when, as was hoped, India attained self-government, the right of fiscal autonomy must then be unreservedly conceded. He expressed his wish, however, not to press this argument too closely for the moment, and he assured the deputation that there was no doubt that the ultimate responsibility for India's financial measures must in present circumstances rest with the Secretary of State.[1] He was not in a position to promise definitely that the Secretary of State would undertake to re-examine the whole position on the lines suggested by the deputation; but he expressed his full agreement with the view

[1] Lord Winterton pointed out that the actual position as regards cotton import and excise duties had by virtue of the vote of the Indian Legislative Assembly been left as it was twelve months ago, *viz.*, the figure of the import duty remained at 11 per cent., and that of the excise duty at 3½ per cent. He added that in one respect the British cotton trade was better off than other trades, since the general import duty had been raised in the recent Indian budget from 11 per cent. to 15 per cent., whereas by the vote of the Indian Legislative Assembly the import duty on cotton had been left at its former figure.

that close co-operation between the Home Government and the Government of India in this matter was essential in the interests of both countries, and he promised that the fullest consideration should be given to the representations made, which he would charge himself with conveying to the Secretary of State.[1]

The opinion expressed by Lord Winterton, on behalf of the present Secretary of State for India, seems to indicate a significant change in the attitude of the British Government towards India on this important question. Lord Winterton's words are in direct contrast with the clear and emphatic language—without any 'if' or 'when'—in which Mr. Montagu defined the constitutional position of India in respect of her tariff. And no wonder that this change of attitude has given rise to a keen and intense feeling of dissatisfaction among all classes of people in the country. It is, however, to be earnestly hoped, in the interests of the future good relations between India and England, that no attempt will be made to go back upon the definite assurance of fiscal freedom which was given by a responsible Parliamentary Committee, and endorsed by the King's responsible Ministers.

[1] Report published in the *Englishman*, April, 1922.

CHAPTER V

THE THEORETIC BASES OF FREE TRADE AND PROTECTION

Mercantilism was the accepted economic creed of the nations of Europe in the seventeenth and eighteenth centuries. Control of trade and industry in various shapes and forms was the essential feature of the mercantile theory and practice. The Physiocrats were the first to lead a movement of revolt against the system of exclusions and prohibitions by which the mercantilists sought to advance the industrial and commercial interests of their respective countries. The doctrine of free trade grew out of certain principles advocated by the Physiocrats. Adam Smith was the prophet—though not the father—of this theory.[1] He held that all restraints were bad, and urged the removal of

[1] Several writers had advocated freedom of trade and industry before Adam Smith. He must have been largely influenced by the writings of Quesnay, Gournay, and Turgot of France, and David Hume of England. But to Adam Smith belonged the credit of having first presented this doctrine in a precise and intelligible form.

restrictions on trade in order that the "obvious and simple system of natural liberty" might establish itself.

Natural liberty was thus the most important basic principle of free trade. The duties of the State would, in this view, be limited only to protection of the community from external invasion, the preservation of internal peace, and the maintenance of a few works of public utility. "Every nation," said Adam Smith, "which endeavours, either by extraordinary encouragements, to draw towards a particular industry a greater share of the capital of the society than what would naturally go to it; or by extraordinary restraints, to force from a particular species of industry some share of the capital which would otherwise be employed in it, is in reality subversive of the great purpose which it means to promote. It retards, instead of accelerating, the progress of the society towards real wealth and greatness; and diminishes, instead of increasing, the real value of the annual produce of its land and labour."[1]

Every individual, in this view, was a better judge of what species of industry was likely to be of greater value to him than any statesman or

[1] Wealth of Nations, Bk. IV, Ch. IX.

lawgiver. Regulation by the State, therefore, was either useless or hurtful. And natural liberty would promote the welfare not only of the individual, but also of society. "Every individual", according to Adam Smith, "is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage, naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to society."[1]

Another important principle on which the free trade doctrine was based was international division of labour. Just as a prudent master of a family, argued Adam Smith, never attempted to make at home what it would cost him more to make than to buy, so if a foreign country could supply us with a commodity cheaper than we ourselves could make it, it would be an advantage to buy it with some part of the produce of our own country. Such purchase would not lead to any diminution of the general industry of the country, for industry was always in proportion to the capital employed. Left to

[1] Wealth of Nations, Bk. IV, Ch. IX.

itself, therefore, the industry of the country was always able to find out the way in which it could be employed with the greatest advantage; but artificially regulated, it was turned away from a more, to a less, advantageous employment, and the exchangeable value of its annual produce was diminished.

Originally, it seems, Adam Smith's view rested on the question of natural advantage. "The natural advantage", he said, "which one country has over another in producing particular commodities are sometimes so great that it is acknowledged by all the world to be in vain to struggle with them". But he perhaps felt disinclined thus to limit the theory, and extended it to advantages of other sorts.

Freedom of trade and industry ought, therefore, in Adam Smith's opinion, to be the general rule for all countries. But he recognised certain exceptions to this rule. In two cases, he thought, it might be advantageous to lay some burden upon foreign industry for the encouragement of domestic industry. First, when some particular industry was necessary for the defence of the country. The Navigation Laws of England were justified on this ground. Secondly, when some tax was imposed upon local produce,

an equal tax might reasonably be imposed on the like produce of foreign countries. Besides these, there were two other cases in which it might sometimes be a matter of deliberation. The first was when some foreign nation restrained by high duties or prohibitions the importation of manufactures of a particular country into its own, retaliation might be a good policy, if there was any probability that it would procure the repeal of the high duties or prohibitions. Then again, when particular manufactures, by means of high duties or prohibitions upon all foreign goods, had been so far extended as to employ a great multitude of hands, humanity might require that freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection.[1]

Adam Smith was certainly on firm ground when he condemned the abuses which resulted from the acceptance of Mercantilism. But the theory of natural economic liberty, as formulated by him, has not stood the test of experience, for every civilised nation, not even excepting England, has found it necessary to impose restrictions in some form or other on commercial and industrial activity.[2] Adam Smith's

[1] Wealth of Nations, Bk. IV, Ch. II.

[2] Sidgwick adopted a moderate attitude towards the question of economic liberty. He said, "Complete laissez faire is not to be

narrow conception of the functions of the State has now given place to a more enlightened view. His belief in the absolute identity of the economic interests of the individual and the community, and of the nation and humanity, under all circumstances, has now been found to have been based on wrong hypotheses. His failure to draw a distinction between natural and acquired advantages is a very regrettable omission. Lastly, Adam Smith's vision was limited to the static side of economic activity, which prevented him from considering national economy in its more important—namely, the dynamic—aspect. The main thesis of the great economist, therefore, can be accepted as true only within certain well defined limits.

The doctrine of free trade, as expounded by Adam Smith, was followed by Ricardo and developed by J. S. Mill. Ricardo, like his predecessor, thought that under a system of perfectly free commerce, each country would

taken as a political ideal; the problem for the statesman is to balance its advantages against the disadvantages of extending the sphere of government."

As for the application of the theory of individnal freedom to economics, a contemporary writer says: "The case for Free Trade is thus essentially a part of the general case for individnal liberty. It does not, of course, follow that those who accept individual liberty as a general rule of policy are bound to accept Free Trade, but it does follow that they will be inclined to do so, until they are proved to be wrong". H. Cox, Economic Liberty, p. 99.

naturally devote its capital and labour to such employment as would be most beneficial to it. And this pursuit of individual advantage would lead to the universal good of the whole. "By stimulating industry", he said, "by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while by increasing the general mass of productions, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilised world."[1]

John Stuart Mill expressed similar views with his usual precision of thought and language. He laid great stress on the fundamental idea of mutual benefit, which was believed to underlie international trade. "The importation of foreign commodities", wrote Mill, "in the common course of traffic, never takes place, except when it is, economically speaking, a national good, by causing the same amount of commodity to be obtained at a smaller cost of labour and capital to the country. To prohibit, therefore, their importation, or impose duties which prevent it, is to render the labour and capital

[1] Ricardo, Principles of Political Economy and Taxation, Ch. VII.

of the country less efficient in production than they would otherwise be; and compel a waste of the difference between the labour and capital necessary for the home production of the commodity and that which is required for producing the things with which it can be purchased from abroad. The amount of national loss thus occasioned is measured by the excess of the price at which the commodity is produced, over that at which it could be imported. In the case of manufactured goods, the whole difference between the two prices is absorbed in indemnifying the producers for waste of labour, or of the capital which supports that labour. Those who are supposed to be benefited, namely, the makers of the protected articles, (unless they form an exclusive company, and have a monopoly against their own countrymen as well as against foreigners,) do not obtain higher profits than other people. All is sheer loss to the country as well as to the consumer."[1]

Mill ridiculed the "specious plea of employing our own countrymen and our national industry, instead of feeding and supporting the industry of foreigners". "The alternative", he added, "is not between employing our own people and

[1] J. S. Mill, Principles of Political Economy, Bk. V, Ch. X.

foreigners, but between employing one class and another of our own people. The imported commodity is always paid for, directly or indirectly, with the produce of our own industry: that industry being at the same time rendered more productive, since with the same labour and outlay, we are enabled to possess ourselves of a greater quantity of the article."[1]

If each country devoted itself to the production of those goods for which it had the best advantages, no doubt productive costs would be reduced to the lowest possible limits, and all countries would reap the benefit. It would be impossible to dispute the correctness of Mill's view, provided it was assumed that the advantages which one country possessed over another in the production of any article were of a permanent character. But this assumption is not always true, and, therefore, there may be conditions to which his argument would not apply.

Mill himself, like Adam Smith, was quite prepared to make exceptions, though the exceptional cases mentioned by him were not exactly the same as those of his predecessor. In the interests of national defence, restrictions might, in his opinion, be "though economically

[1] J. S. Mill, Principles of Political Economy. Bk. V, Ch. X.

disadvantageous, politically expedient". But the only case in which he would regard protective duties as defensible on mere economic principles was when they were "imposed temporarily (especially in a young and rising nation) in hopes of naturalising a foreign industry, in itself perfectly suitable to the circumstances of the country". Mill thus went further than Adam Smith in the direction of limiting the doctrine. He drew a distinction between natural and acquired advantages. "The superiority of one country", said Mill, "over another in a branch of production often arises only from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience to acquire, may in other respects be better adapted to the production than those which were earlier in the field. ... But it cannot be expected that individuals should, at their own risk, or rather to their certain loss, introduce a new manufacture and bear the burthen of carrying it on until the producers have been educated up to the level of those with whom the processes are traditional. A protecting duty, continued for a reasonable time, *might* sometimes

be the least inconvenient mode in which the nation can tax itself for the support of such an experiment."

Mill was careful, however, to add a word of caution. He said, "But *it is essential that* the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producers ever be allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."[1]

Another significant admission, which was characteristic of the sense of fairness which distinguished Mill from the other advocates of free trade, was that "there is a great foundation of reason" for the belief "that a nation all engaged in the same or nearly the same, pursuit—a nation all agricultural—cannot attain a high state of civilisation and culture."

The concession made by Mill in favour of

[1] Mill, Principles of Political Economy, Bk. V, Ch. X. As Sir William Ashley points out, the "will" of the original text was changed into "might" in the 7th edition, and the words "it is essential that" were inserted.

It is worthy of note that Adam Smith himself concedes that "by such (Mercantile) regulations a particular manufacture may sometimes be acquired sooner than it could have been otherwise, and after a certain time may be made at home as cheap as or cheaper than in the foreign country". *Vide* Marshall, Industry and Trade, Appendix D.

'infant industries' was regarded as a heresy by the other followers of Adam Smith.[1] These latter lacked Adam Smith's breadth of view and moderation and Mill's scrupulous regard for truth.[2] When Adam Smith and Mill made reservations or exceptions, they suggested that certain conditions were implied for the validity of their theory. But other supporters of free trade made "simple sweeping statements of broad scope without the necessary limitations and conditions." They bolstered up the doctrine as an absolute truth which was applicable to all circumstances. One reason of this narrowness of view was perhaps to be found in the deductive method of reasoning which was exclusively employed by some economists. Another reason was the limited knowledge of the world possessed by them, which tempted them to generalise from the circumstances with which they were familiar. But the most important reason was patriotic bias. These

[1] Sir William Ashley points out that, writing to a correspondent in 1869, Mill expressed an intention to withdraw the opinion, and remarked: "Even on this point I continue to think my opinion was well grounded, but experience has shown that protectionism, once introduced, is in danger of perpetuating itself, and I, therefore, prefer some other mode of public aid to new industries though in itself less appropriate." But he subsequently changed his mind and allowed the opinion to stand.

[2] In France, the chief advocate of the classical doctrine was J. B Say, who also was prepared to make some concession in favour of young industries for the purpose of development.

economists looked to the needs and interests of their own country, and failed to appreciate those of other countries. As has been rightly expressed by a great economist, "It was clearly to the interests of England that her manufactures should be admitted free by other countries. Any Englishman who attempted to point out that there was some force in some of the arguments which were adduced in favour of Protection in other countries was denounced as unpatriotic."[1] The evil was further aggravated when the theory was put to polemical use by politicians who made all sorts of overstatements and exaggerations.

The free trade theory came thus to be looked upon with suspicion by statesmen in other countries, and was for a time discarded by economists—with a few notable exceptions—outside England. About 1860, the doctrine of free trade was triumphant. But not long after, a reaction began to set in. In recent years, however, a more sober and moderate view of this doctrine has been adopted by its supporters amongst economists. Prof. Marshall does not hesitate to point out that "the wording of these doctrines was often so narrow and inelastic that, when applied under conditions of time and place

[1] Marshall, Industry and Trade, p. 760.

different from those in which they had their origin, their faults became obvious and provoked reaction." He adds: "Looking back, then, it is easy for us to see that English economists made a grave error of judgment as to the proportions of one leading problem of their own age, though not of their own country. They misjudged the needs no less than the potentialities of backward countries, and specially of new countries. They took little account of the fact that, though any county of England, which had latent resources and faculties for an advanced industry, would attract that industry to itself from other counties; yet what is true of counties is not true of countries."[1]

The most formidable critic and opponent of Adam Smith's theory was Frederick List, the father of modern economic nationalism and the intellectual founder of the German Zollverein. He was, in reality, more a critic of the popular notions on free trade than of the exposition of the doctrine by the great classical economist himself. The necessity which List felt for "energetically contradicting" a great writer like Adam Smith often led him—though unconsciously—to misunderstand or misinterpret him.

[1] Marshall, Industry and Trade, Appendix E.

The main characteristic of List's system, as distinguished from that of Adam Smith and others—which he understood to be cosmopolitanism—was nationality. List was not wholly opposed to a system of free trade. But he saw that all nations were not equal in wealth or productive power. He argued, therefore, that "in order to allow freedom of trade to operate naturally, the less advanced nations must first be raised by artificial measures to that stage of cultivation to which the English nation has been artificially elevated." The most effectual means for this purpose was, in his view, protection which should be resorted to by "all nations which feel themselves to be capable, owing to their moral, intellectual, social, and political circumstances, of developing a manufacturing power of their own."[1]

List laid great emphasis on productive power. He held that the power of producing wealth was "infinitely more important than wealth itself; it insures not only the possession and the increase of what has been gained but also the replacement of what has been lost." The prosperity of a nation was not greater in proportion in which it amassed more wealth (*i. e*, values in exchange)

[1] List, National System of Political Economy.

but in the proportion in which it developed more its powers of production. The distinction which List drew between present and future advantage is of fundamental importance. A nation, according to him, must sacrifice some present advantages to secure future ones. List did not overlook the fact that protective duties tended at first to increase the price of goods but this loss he believed to be only temporary. When, in the course of time, the nation was enabled by this means to build up a completely developed manufacturing power of its own, these goods would be produced more cheaply at home than could be purchased from foreign countries. If, therefore, a sacrifice of value was caused by protective duties, it was made good by the gain of a power of production.

List laid great stress on the necessity for developing manufactures as well as agriculture. These two kinds of industry, he thought, depended mutually upon one another, and he called this relation "the balance or the harmony of the productive powers." He regarded the value of manufacturing industries, from the point of view of civilisation, as very great. Without them a nation must remain relatively unprogressive. "In a condition of merely agricultural

industry," he wrote, "caprice and slavery, superstition and ignorance, want of means of culture, of trade, and of transport, poverty and political weakness exist. In the merely agricultural State only the least portion of the mental and bodily powers existing in the nation is awakened and developed, and only the least part of the powers and resources placed by nature at its disposal can be accumulated." And from the national stand-point, he considered the exclusive pursuit of agriculture a source of weakness. "A nation," said he, "which only carries on agriculture, is an individual who in his material production lacks one arm. Commerce is merely the medium of exchange between the agricultural and the manufacturing power, and between their separate branches. A nation which exchanges agricultural products for foreign manufactured goods, is an individual with one arm, which is supported by a foreign arm." On the other hand, manufactures not only helped to secure the material prosperity of a nation but also its industrial independence in time of war.

List did not reject the idea of an international division of labour, but he believed that this was determined by climate and nature herself. Evidently, he did not favour a permanent territorial

division of labour based on acquired advantages. List was not entirely opposed to free trade. According to his system, protection would always be of a temporary character, and it was to be limited to the educational or young industry stage of development. Protective measures were considered by him justifiable only in the case of nations which possessed an extensive territory, large population, and natural resources. Universal free trade was his ideal, but it could be realised only when the industrially backward nations were educated up to the level of the more advanced nations by means of protection[1].

Frederick List was the founder of 'scientific protectionism' as distinguished from 'mercantile protectionism.' But he was a protectionist only in a qualified sense of the term. There were, however, other advocates of protection who went very much further than List. They were not content to limit protective measures to young industries, or to articles required for national defence, but wanted to extend them as widely as possible. And in their disputations they used arguments which were not only untenable, but sometimes appeared ludicrous. Thus their

[1] List, National System of Political Economy, Bk. II, Ch. XXVI.

attitude furnished grounds for censure and condemnation. One of the most brilliant economists who attacked the protectionist doctrine was Frederic Bastiat. He employed not only all the fruits of his observation and study, but all the resourses of his wit and humour, to demolish the position of his opponents. In his famous satire on the Candle-makers' Petition he poured ridicule and contempt on the protectionists.[1]

Bastiat, however, did not present the protectionist case in a fair and impartial manner. The chief arguments in favour of protection may be briefly discussed here. In the first place, it is claimed that protection secures diversity of industries. This is true only of countries which are, economically speaking, young. Agriculture is exposed to the freaks of the seasons, while

[1] The imaginary petitioners are made to say: "We are suffering from the intolerable competition of a foreign rival This rival, who is none other than the sun, wages war to the knife against us, and we suspect that he has been raised up by perfidious Albion What we pray for is, that it may please you to pass a law ordering the shutting up of all windows, skylights by or through which the light of the sun has been in use to enter houses, to the prejudice of the meritorious manufactures with which we flatter ourselves we have accommodated our country a country which, in gratitude, ought not to abandon us now to a strife so unequal." In anticipation of the possible objection that the grant of their prayer might be hurtful to the consumers, the petitioners are made to reply: "You have ceased to have any right to invoke the interest of the consumer, for, whenever his interest is found opposed to that of a producer, you sacrifice the former. You have done so for the purpose of encouraging labour and increasing employment. In the same reason you should do so again."

manufactures are dependent more upon human effort than upon the gifts of nature. The development of manufacturing industry is also necessary for the social progress of a people. But it takes long to develop manufactures in a country which has been accustomed only to the cultivation of the soil, unless some special encouragement is offered to a portion of the population to change their occupations. But this argument does not hold good of countries which have already succeeded in establishing manufactures.

Secondly, it is argued that protection by encouraging various branches of home industry, makes a community much less dependent upon foreign countries. It is possible that, in time of war, the imported supplies of a country may be cut off by its enemy, and to guard against such a contingency, it may be desirable to encourage the production of all the essential kinds of goods within its own borders, even though it may be more expensive to produce than to buy them in normal times. But this is really a political, and not an economic, argument. Its validity, however, has been admitted by even ardent free traders. The only question is whether or not the premium which has to be paid for such

national insurance is too high. England, perhaps, finds it less costly to maintain a large navy which enables her to obtain her food supplies from the most distant parts of the world than to produce the entire quantity of her food at home.

Thirdly, it is asserted that a protective duty falls ultimately on the foreign producer, and, consequently, protection secures the double advantage of taxing the foreigner and of fostering home industry. This argument is valid only in part. It is true that, very often, the foreign manufacturer bears a part of the burden of an import duty in order to retain his market in the importing country. But this is not a matter for rejoicing to the consumer who has to pay a higher price for the article on which the duty is levied. The real test in such a case is, not whether the foreigner suffers, but whether it is worth compelling the home consumer to pay a higher price in order to develop the productive power of the country; in other words, whether an immediate sacrifice is desirable in order to secure an ultimate gain.

The fourth argument in favour of protection is that when a country produces commodities for itself, instead of obtaining them from abroad,

the cost and labour of transportation are saved. This argument is wholly fallacious, for goods would never be conveyed from one country to another, unless such conveyance was more profitable than local production.

The fifth argument is that protection helps to raise the wages of labour. The real cause of high wages is the large productiveness of labour, and so far as protection helps to establish successful industries, it does certainly tend to raise wages. It, very often, happens, however, that only nominal wages are raised. In many cases, a rise in wages is accompanied by a rise in prices. How far protection results in a rise of real wages is a matter not entirely free from doubt.

Sixthly, it is argued that protection, having been once established, cannot be removed without causing great loss to employers and employed in the protected industries. While there is a great deal of force in this argument, it is, in fact, an argument against initial protection. It cannot be denied that industries, which have enjoyed protection for a long series of years, suffer considerably when it is withdrawn. But all changes are attended with suffering to some classes of people. When it is found necessary to withdraw protection, the intensity of the suffering may be

greatly minimised by making the withdrawal gradual, instead of sudden.[1]

The last and most important argument in favour of protection is the 'infant industry' argument. This, as has already been said, was the main ground on which Frederick List based his theory, and the support lent to it by J. S. Mill added immensely to its value. As an eminent economist puts it, "the really sound arguments in favour of protection are various presentations of the case for aiding infant industries, and unborn infants along with the rest"[2]. Evidently, the applicability of the argument is confined only to countries which are still in the earlier stages of industrial development. But two essential conditions are implied in it. First, the industries selected for protection should be suitable to the country, and secondly, protection ought to be withdrawn as soon as the protected industries are able to stand on their own legs. The first of these conditions is comparatively easy of fulfilment. But the case is quite different with the second. Once protection is established, it is always extremely difficult to abandon it.[3]

[1] *Vide* Fawcett, Free Trade and Protection, Ch. IV.

[2] Flux, Economic Principles, p. 261.

[3] This, in fact, was one of the principal objections urged by Sidgwick against a policy of protection. He said: "I agree, indeed, with these writers in holding, as a conclusion of abstract

This tendency towards the perpetuation of specially favoured interests is an evil of the protective system. Another objectionable feature of the system is that the original object of protection is often lost sight of, and when protection is afforded to one industry, the contagion spreads, and many other industries claim special treatment. Thus industry and trade are diverted from their natural channels, and the remumeration of labour and capital diminishes. Protection also tends to discourage industrial enterprise by weakening the feeling of self-reliance. The encouragement which undesirable combinations like trusts and kartels often receive from protection is another evil of the system. But the worst evil of all is that it fosters political corruption. "There are also to be apprehended,"

economic theory, that Protection, in certain cases and within certain limits, would probably be advantageous to the protecting country,—and even perhaps to the world—if only it could be strictly confined to these cases and kept within these limits; but I am nevertheless strongly of opinion that it is practically best for a Government to adhere to the broad principle of 'taxation for revenue only'—at any rate in a free community where habits of commercial enterprise are fully developed. My ground for this opinion is that I do not think we can reasonably expect our actual Governments to be wise and strong enough to keep their protective interference within due limits; owing to the great difficulty and delicacy of the task of constructing a system of import duties with the double aim of raising revenue equitally and protecting native industry usefully, and the pressure that is certain to be put upon Government to extend its application of the principle of protection if it is once introduced."

Principles of Political Economy, Second Edn., pp. 488, 489.

observe a body of distinguished Professors, "those evils other than material which Protection brings in its train,—the loss of purity in politics, the unfair advantage given to those who wield the power of jobbery and corruption, and the growth of the 'sinister interest."[1]

According to Prof. Smart, the following are the chief evils of a system of protection: It is impossible to devise a tariff which does not permit all manner of anomalies and inequities; it tends to political immorality; it tends to commercial immorality; it raises costs and checks exports; it is bad as judged by the canons of taxation.[2]

A well-known continental economist distinguishes between three groups of protectionist theories, namely, the developmental, the compensatory, and the defensive theories. "The developmental theories," says he, "look upon

[1] The Fourteen Professors' Manifesto, 1903, quoted in Pigou, Protective and Preferential Duties, p. 82. Prof. Sumner describes the evils of protection in the United States in these words: "The continual law-making about industry has been prolific of industrial and political mischief. It has tainted our political life with log-rolling, presidential wire-pulling, lobbying and customs-house politics. It has been intertwined with currency errors all the way along. It has erected privileged classes in the free American community, who were saved from the risks and dangers of business to which the rest of us are liable. It has controlled the election of congressmen, and put inferior men in office, whose inferiority has reacted upon the nation in worse and worse legislation."

[2] Smart, Return to Protection, Chs. X & XII.

world economy as an ideal, but one which cannot be reached immediately, but only by way of a transitional stage of development through protective duties. The compensatory theories seek a solution of the conflicts which arise from the existence side by side of national economy and world economy without concerning themselves with the question of the ultimate goal of the development. The defensive theories, finally, see in national economy itself the permanent form of organisation which on political and economic grounds must defend itself against injurious tendencies originating in the world-economy sphere. According to the last view, the national economy is an organism, while the world economy is merely a community of commercial relations serving the interests of this organism." [1]

While this writer is intensely national in his economic ideas, he is not absolutely hostile to internationalism. In fact, he argues that protectionism is an aid to a proper understanding among the nations of the world: He concludes a well-ordered and properly-balanced study of the subject with the following words; "The protective policy embodies a permanent principle which

[1] J. Grunzel, Economic Protectionism, pp. 141, 142.

varies only in its application, and one which in general must be so manipulated that national economy and world-economy development must be brought into the closest harmony. National economy and world-economy do not stand in a relation of hostile opposition, but rather condition each other. In the economic sense also the truth holds good that he most benefits the world who best serves his own people."[1]

Fair trade, reciprocity, retaliation, and colonial preference are modifications of the system of protection. The supporters of fair trade aim at placing home and foreign producers on an equal footing, with regard to the artificial conditions of production, while leaving undisturbed the natural conditions. Reciprocity is the system under which one nation grants to another certain concessions in respect of the tariff in exchange for similar concessions granted by the other nation. Retaliators hold that free trade is the best system, provided that all countries adopt it. If, however, tariff-walls are raised by foreign countries, they consider it necessary to retaliate in order to convert them to the policy of the 'open door.' The main object of an advocate of colonial preference is to

[1] J. Grunzel, Economic Protectionism, p. 351.

give some economic advantage to his own kith and kin over foreigners in order to draw the former closer to the mother country.[1]

The German Historical School stands midway between the two principal schools of free trade and protection. Knies, one of the chief exponents of this school, said many years ago, "No more the present than any previous economic organisation of society is to be regarded as absolutely good and right, but only as a phase in a continual historical evolution, and that in like manner the more prevalent economic doctrine is not to be received as complete and final, but only as representing a certain stage in the unfolding or progressive manifestation of the truth."[2] Prof. Schmoller, another prominent representative of the school, held the view that neither free trade nor protection was wholly true, but each was true according to circumstances.[3]

While it must be admitted that this view is perfectly sound in substance, the opportunist style of argument adopted by some followers of

[1] Dietzel, Retaliatory Duties.

[2] *Vide* Ingram, History of Political Economy, p. 203.

[3] In regard to the adoption of a policy of free trade by a nation, Prof. Schmoller says, "That age could begin to think and act in the spirit of free trade which had left so far behind it the toilsome work of national development that it regarded its best results a matters of course." P. Ashley, Tariff History.

the Historical School is hardly satisfactory. They go too far in their disregard for theory, and their absolute faith in expediency may often lead to harmful consequences.[1]

The practice of the nations of the world shows something like a consensus in favour of protection. And, strangely enough, the largest countries, with only one exception, are the strongest supporters of the protective system. Even England, which stood fast by free trade for more than three quarters of a century, has now found it expedient to modify its policy to some extent. The key to this situation is to be found in the intermingling of economic and political considerations. Economic protectionism thrives on national sentiment.

Thus we find that, although the theoretic basis of protection is comparatively weak, its hold on the sentiments of nations is strong. On the other hand, in economic science free trade is still the prevailing idea. The present position of the theory is correctly described by Professor Taussig in these words: "The essence of the

[1] Prof. Taussig says, "I have little patience with this attitude. It assumes to be large-minded and judicial, and a certain tinge of contempt for the old-fashioned theories often goes with it. Yet in truth it usually rests on inability or unwillingness to follow the threads of severe reasoning." Free Trade, the Tariff, and Reciprocity, pp. 26-27.

doctrine of Free Trade is that *primâ facie* international trade brings a gain and that restrictions on it presumably bring a loss. Departures from this principle, though by no means impossible of justification, need to prove their case; and if made in view of the pressure of opposing principles, they are matter for regret. In this sense, the doctrine of Free Trade, however widely rejected in the world of politics, holds its own in the sphere of the intellect."[1]

A reconciliation of the two doctrines has recently been attempted by Professor Nicholson. In his opinion, the need of the hour is to combine the best of both systems and to avoid the worst in both. "The real strength of free trade," he says, "lies in the stress laid on the character and initiative of the individual. Its great danger is that unlimited competition may destroy the ideas of nationality and national welfare. The strength of the opposing system is in organisation and in the stress laid on the power of good government. Its great danger is that too much government will destroy the character and force of the individual.[2]

[1] Free Trade, the Tariff, and Reciprocity, p. 27.

[2] War Finance, p. 417.

CHAPTER VI

THE RIGHT FISCAL POLICY FOR INDIA

An examination of the theories of free trade and protection has brought us to the conclusion that the tariff problem admits only of relative solution. In other words, the fiscal policy which ought to be adopted by a country at a particular moment should be appropriate to its peculiar circumstances at that moment. Let us now consider the circumstances in which we find India at the present day.

A cursory glance at the foreign trade returns of India brings home to the mind of the observer the significant fact that the bulk of her imports consists of manufactured goods, while raw materials constitute much the greater part of her exports.[1] This is an unnatural state of

[1] The classification adopted in the Government returns is illogical and misleading. In order to form a correct estimate of the character of India's imports and exports, the bulk of the goods shown under the head "Food, Drink, and Tobacco" ought to be added to the list of manufactures in the former case, and to the list of unmanufactured products in the latter. Thus calculated, manufac-

things, and its consequences are extremely harmful. The imports are what are technically known as consumers' goods, while the exports consist mainly of producers' goods. This distinction is a matter of great importance. As things are, the imported goods are consumed exactly at the value shown in the importation statistics. If, on the other hand, the imports were to consist of unfinished articles, their value would be greatly enhanced by the industry of the country before they became fit for consumption.[1] The present situation has another drawback. The exportation of agricultural products means the sending away of the soil. This tendency towards the diminishing fertility of the soil can only be checked by the development of local manufactures.[2] The growth of manufactures is also necessary for affording a greater diversity to the occupations of the people. A purely agricultural country, dependent on the mercy of the monsoons, must always remain subject to periodical visitations

tures represent over 90 per cent. of the total imports; while manufactures and raw produce represent about one-third and two-thirds respectively of the total exports of India.

[1] *Vide* Grunzel, *Economic Protectionism*, p. 133.

[2] J. S. Mill admits that this argument deserves attention on account of the physical truth on which it is founded but he is of opinion that it is not relevant to the question of Protection.—*Principles of Political Economy*, Bk. V., Ch. X., 1.

of the spectre of famine.[1] Besides, agriculture is not a sufficiently remunerative occupation, and a people devoted almost exclusively to it can never hope to make any great progress in material civilisation.[2]

But the worst evil of the present system is to be found in its effect on the character of the people. A community engaged in agriculture is generally found to lack breadth of outlook and to suffer from conservativeness and stagnation. Industrial and commercial occupations, on the other hand, have a tendency to widen the vision of those engaged in them, to develop initiative and enterprise, and to foster a spirit of freedom. Besides, as Ranade said many years ago, "the political domination of one country by another attracts far more attention than the more formidable though unfelt domination, which the capital, enterprise and skill of one country exercise over the trade and manufactures of another. This latter domination has an insidious influence which paralyses the springs of all the activities which

[1]The Famine Commission of 1880 observed, "The failure of the usual rains thus deprives the labouring class, as a whole, not only of the ordinary supplies of food obtainable at prices within their reach, but also of the sole employment by which they can earn the means of procuring it."

[2] The authors of the Report on the Indian Constitutional Reforms correctly appreciated the situation when they remarked, "The economics of a country which depends to so great an extent as India on agriculture must be unstable." P. 210.

together make up the life of the Nation."[1] The magnitude of the evil becomes apparent when the fact is recalled that the political status of a country depends very largely on its economic position.

The solution of the problem can only be found in industrial development. But in order that the trouble and expense involved in industrial effort may not go in vain, it is desirable, at the outset, to consider whether or not India satisfies the conditions essential for the successful development of manufactures. Such conditions are of two kinds, namely, natural and acquired. As for the natural conditions, India has an abundance of natural resources and a large population. The former is the most important requisite of production, and the latter not only ensures the supply of labour, but affords a market for the goods produced by industry. In respect of the acquired factors, however, India is in great defect. Skilled labour is scarce, and industrial expansion is considerably hampered by the absence of technical knowledge on the part of the children of the soil. The supply of capital is inadequate. The people lack enterprise, and business organisation is far from

[1] *Essays on Indian Economics*, Second Edition, p. 105.

perfect. These defects, however, are not irremediable. Technical knowledge and skill can be acquired by education and practical training. Indigenous capital has already begun to overcome its shyness, and development of banking facilities will go a long way towards removing this deficiency. Educated men are now beginning to engage in commerce and industry, and experience will before long enable them to develop the proper sort of business organisation.

Artificial conditions are in the present age becoming more and more decisive as factors in production. But acquired advantages are not the monopoly of any race or nation, and in her possession of natural advantages India has a great superiority over many other countries. The industrial backwardness of India is due, however, in part, to the causes mentioned above, and partly to her political environment. The State in India has in the past not only failed to foster industries, but has actually hindered their development. Even now, the people believe, rightly or wrongly, that, in the industrial struggle the forces of the State are arrayed against them. A feeling of helplessness has thus been induced in the community. To remove the feeling of

despair from the minds of the people and to restore their confidence in their own selves, it is absolutely necessary for the Indian Government to adopt a policy of active encouragement of industries. Such a policy will give a feeling of security to the industrialist, afford a stimulus to individual enterprise, and call into being the necessary capital and organisation.

In every civilised country, the industries receive the fostering care of the State. The economic greatness of the United States and Germany has been due, in no small measure, to the efforts of the State. In England also, industry and trade received considerable assistance from the State in the earlier stages of their development. It is true that when these had become well developed, they were able to do without the help of the Government. But now that some difficulty has arisen, State aid is being once more invoked and ungrudgingly offered[1]. What is needed most in India at the present moment is an enlightened system of protection, by which should be understood all those measures which will tend to promote the economic interests of the country.[2]

[1] *Vide* Report of the Committee on Commercial and Industrial Policy after the War.

[2] The authors of the Montagu-Chelmsford Report observed, "English theories as to the appropriate limits of the State's activity

These measures may be either positive or negative. Of the positive measures, the most important appear to be the granting of bounties, subsidies and concessions in suitable cases, the establishment of technical colleges, the provision of credit facilities, the proper regulation of railway and steamship freights, the collection and dissemination of useful information regarding industry and trade, and the local purchase of stores.

A tariff is only one form of protection. Although it is merely a negative measure, it is regarded in most countries as the most effective means of promoting a national economic policy. Freedom of trade and industry ought surely to be the ultimatel goa for India, as for all other nations. But, in the abnormal circumstances in which she finds herself at the present moment, India cannot be expected to derive the same advantage from free trade as the industrially advanced countries. A departure from the present economic policy thus seems to be not only justifiable, but absolutely necessary. Competition of the right sort, no doubt, is good for

are inapplicable to India." And again, "We are agreed therefore that there must be a definite change of view: and that the Government must admit and shoulder its responsibility for furthering the industrial development of the country. . . . . Though these are serious difficulties they are not insuperable; but they will be overcome only if the State comes forward boldly as guide and helper". P. 213.

industry and trade in a state of health and vigour. But it would be extremely difficult, if not impossible, for the immature and undeveloped industries of India to stand and survive the competition of the mature and fully-developed industries of countries which have had a long start. The most advanced nations often impose restrictions in the interests of children and weak persons. Freedom of contract, in the case of young children, is described by political philosophers as 'another name for freedom of coercion'. On the same analogy, it would be unreasonable to expect the young industries of India to be able to make proper use of their freedom.

If success is to be achieved, industrial conditions in India must adjust themselves to modern requirements. In fact, the industrial structure in India will have to be built anew. But this cannot be accomplished in a day. The transition from the agricultural to the industrial stage will take time. Some amount of tariff protection is, in the meanwhile, indispensable to offset the temporary lead of the older industrial countries. But there should be discrimination in the application of the principle of protection An "all-round, all-inclusive" protective system cannot possibly be advantageous or beneficial to

the country. It is argued by some enthusiastic supporters of a protective policy that an indiscriminate use of protection is necessary in order to create an atmosphere favourable to industrial development.[1] But they forget to count the cost of such a policy or to estimate its probable ultimate gain or loss. The creation of an atmosphere is certainly desirable, but this object can be best attained through some form of voluntary effort, such as the *swadeshi* movement. The difference between such a movement and Government action lies in the element of compulsion always involved in the latter, which may, unless proper safeguards are adopted, produce as much harm as good.

While, therefore, infant industries should be maintained at public expense during the period of their education or apprenticeship, adequate care must be taken so as not to allow protection to run riot. Protection ought to be afforded only to such industries as have a reasonable chance of successful development. When the raw material required for a particular industry is available within the country or can be easily obtained from abroad, when there is an adequate supply of labour, and when there

[1] See Mr. M. Subedar's Evidence before the Indian Fiscal Commission.

is also a ready market at home, there is *primâ facie* ground for believing that the industry is suitable to the circumstances of the country. In this view, protection will be required in two sets of circumstances, namely, first, when an existing industry is struggling against foreign competition, and secondly, when a new industry is established for the sake of an experiment. In the former case, if it is found that the difficulty which the industry encounters does not arise from any natural or inherent disadvantages and that the superiority of the foreign rival consists only in acquired skill or experience, it ought to be assisted by the State. As for a new industry, it is hardly likely that individuals will take the risk attending such an experiment, unless they are guaranteed against possible loss.

The primary object of a tariff is to equalise the conditions of production. But it is not possible to equalise conditions in all industries. It will thus be necessary to discriminate. And great care must be taken in selecting the industries to be protected. The most important among the large-scale manufactures which may be encouraged in the beginning appear to be the following: Steel and iron manufactures, sugar,

glass, paper, leather, rubber goods, vegetable oils, silk and woollen goods, and cotton fabrics of the finer sorts.

Iron and steel goods now occupy the second place in order of importance in the list of India's imports. In 1920-21, the total value of imported goods of this description was 31⅓ crores. There is no dearth of raw material for these industries in the country. Steel of a good quality is now being turned out by the Tata Iron and Steel Company. During the war, the Company made great strides, but, at present, foreign competition is beginning again to hit the industry rather hard. A few years ago, it was hoped to establish no less than seventeen subsidiary industries in the vicinity of Jamshedpur, but this has not yet been found possible. The Company is, however, still negotiating for the establishment of plants for the manufacture of railway wagons and locomotives, agricultural implements, wire products, tin-plates, enamelled ironware, cables, and special steel for reinforcement.[1] Two other Companies are also doing good business, and several more have been projected. The manufacture of steel bars, billets, plates and sections of all kinds is increasing. The

[1] Ainscough, *General Review of the Conditions and Prospects of British Trade in India*, 1920-21, p. 60.

engineering workshops in India are trying to compete with foreign manufactures in structural steel work and simple steel engines of all kinds. Jute mill machinery will shortly be produced at Jamshedpur and tea machinery at Agarpara[1]. As steel is a 'key' industry, it fully deserves to be placed on a sound footing by means of protection.

Sugar, during the war period, used to rank second in the list of India's imports. In 1920-21, however, there was a fall in the quantity, which was due to high prices. But, even then, the total value was no less than 18½ crores. India is the largest sugar-producing country of the world. The methods of extraction and preparation are, however, extremely primitive, and the competition of foreign sugar has resulted in a progressive decline of cane cultivation. Sugar-cane is one of the most paying crops, and it occupies an important position in maintaining agricultural prosperity. In order that the industry may thrive, it will be necessary to replace the antiquated and wasteful methods which now prevail by up-to-date and scientific processes. But as some time must elapse before this can be done, tariff protection and other measures of

[1] Ainscough, General Review, 1920-21, p. 75.

encouragement must be afforded. A high rate of duty will, of course, prove a hardship to consumers, but as refined sugar is not an article of necessity for the poorest classes of the population, its incidence will not be very widespread. In the opinion of the Sugar Committee, it is perfectly practicable to produce the whole amount of sugar required for consumption in India, and she may even look forward to the time when she will again become an exporting country [1]. The suggestion of the Committee that a Government Pioneer Factory should be established in Upper India deserves consideration.

There is a great demand for glassware in the country. Glass is a bulky article, but the value of the imports was no less than 4 crores in 1920-21. The raw material of glass is nothing but clay of a particular kind, which is available in abundance in the country. There is no reason, therefore, why this manufacture should not prove a success in India.

The raw material for making paper is available in the country in various shapes, such as sabai grass, bamboo, and several varieties of wood. In 1920-21, the imports of paper and paste-board amounted to over 7¼ crores. About

[1] Report of the Sugar Committee, pp. 9 and 10.

one-third of the total consumption is now produced by the Indian mills. If the industry is properly encouraged, it will be quite possible for India to produce not only the whole quantity of paper required for use in the country but also for export to foreign countries.

In the pre-war year 1913-14, the value of exports of raw hides and skins was over 12½ crores. It dwindled down to 5¼ crores in 1920-21. This fall was due in part to the growth of leather manufactures in the country, but mainly to the preference of 10 per cent. granted to the United Kingdom and the Dominions over foreign countries in the rate of the export duty. The chemicals required for the industry are mostly produced locally. With a proper organisation, India ought to be able to convert large quantities of her hides and skins into leather and also to manufacture boots, shoes, and various other kinds of leather goods which are now obtained from abroad.

The importance of rubber manufactures is rapidly growing in India. In 1920-21, the value of imports of this class of goods was no less than Rs. 2½ crores. During the same year, India exported raw rubber of the value of over 1½ crores. The production of rubber can, however,

be vastly increased. If rubber manufactures are started in India, there will thus be no lack of raw material, and the home market for the finished product is sure to grow steadily in future. A rubber factory has recently been started in Ceylon, and it is hoped some factories will soon be started in India. But without protection, they will hardly be able to stand on their legs.

Vegetable oils are a species of industry which deserves to be fostered. India's consumption of vegetable oil and cake is large, and is likely to increase with the growth of industries like soap, paints and varnishes. She exports huge quantities of oil seeds every year. In 1913-14, the value of the exports of oil seeds was 24¼ crores, but in 1920-21, it declined to 16⅓ crores. The entire quantity of oil seeds ought to be converted into oil and cake, and the oil should be refined, before any portion of it is exported. It is a strange anomaly that India, with her great resources of this commodity, should obtain vegetable oils from abroad.

Silk and woollen goods require some assistance from the State. At present, considerable quantities of both these kinds of goods are imported into India. In 1920-21, the value of the imports

of silk piece-goods was Rs. 4 crores, the bulk of which came from Japan. There are a few silk factories at present working in India, but many more may easily be started. The imports of woollen fabrics amounted last year to over 5½ crores. Before the war, Germany used to supply the bulk of the cheaper kinds of woollen goods, while England sent the finer qualities. For a few years, England was almost without a rival in this trade, although Japan contributed a small proportion of the total supply. But German goods are likely again to flood the Indian market before long. The Indian mills are turning out excellent qualities of woollen goods of various sorts. The most important of these mills are the Lalimli of Cawnpore and the Dhariwal mill in the Punjab. Carpets and rugs of excellent qualities are also produced in different parts of the country, while the hand-made shawls have still retained their excellence. The chief difficulty experienced by the woollen industry is the want of raw material of a good quality. But wool is being imported from other countries, and the industry seems to have a great future before it.

Lastly, we come to cotton manufactures, the largest mill industry of India. The natural

conditions in India are quite favourable to the growth of the cotton industry. The local supply of cotton is abundant, and there is a ready market close at hand. Although a considerable part of the demand for cotton goods is met by the local produce, yet their imports amount to nearly one-third of the total imports of the country. In 1920-21, imported cotton goods were valued at Rs. 102 crores, and exceeded any other three classes of imported goods taken together. It is small wonder that in men's minds protection has thus come to be identified with the use of *swadeshi* cloths[1]. As a matter of fact, only a small percentage of the imported goods competes with local produce of a similar character.[2] The coarser kinds of cotton goods are thus able to withstand the competition of Manchester. If the owners of existing mills show greater enterprise, and if some more mills are started, it will be quite possible in the near future to manufacture, within the borders of the

[1] This was an abnormally large figure, and, in 1921-22, the value of imported cotton goods decreased to Rs. 60 crores, which is about the normal figure. Even in this year of boycott and trade depression, the imports of cotton goods exceeded any other single import head.

[2] Mr. A. C. Coubrough points out that, in 1920-21, "the total quantity of piece-goods consumed in India was 400 crores of yards. The amount of piece-goods of similar character to those produced in India was less than 40 crores of yards". He also shows that 75 per cent. of imported piece-goods are non-competitive. See *Notes on Indian Piece-Goods Trade* (Bulletin No. 16).

country, the entire quantity of wearing apparel required by the poorer classes of the population. The absence of a local supply of long-stapled cotton at present offers an obstacle to the manufacture of the finer fabrics, but the successful experiments which have been made in certain parts of the Punjab lead us to hope that this difficulty will soon disappear. This branch of the cotton industry fully deserves to be encouraged. While no protection is required for the coarser kinds of cotton goods, the finer qualities will perhaps need protection for some time to come.

The question of yarn is not free from difficulty. It is highly desirable that Indian mills should produce yarns of the higher counts, and a protective duty would be helpful in this regard. But, on the other hand, as yarn is an earlier stage of manufacture, a duty levied on this article, is likely to prove harmful to the later stage, namely, the manufacture of cloth. On the whole, the balance of advantage would seem to lie in admitting yarn free or in levying only a small duty on yarns of the higher counts, until the mills in India are fully equipped to take advantage of a comparatively high rate of duty.[1]

[1]Mr. Ainscough points out that, although there has been a steady increase in the production of yarn during the past three years, the amount of raw cotton consumed has steadily decreased.

Jute manufactures stand on a footing different from other industries. They have already proved a success in India. There are at present seventy-five jute mills in Bengal, and exports of manufactured jute amount annually to over Rs. 50 crores in value. Before the war, more than one-half of the total exports of jute consisted of the raw material. But the proportion has now considerably diminished. If more mills are established, it will be possible to manufacture the whole of the raw jute within the country. This industry, therefore, does not seem to stand in need of State assistance.

Industries of a comparatively small size ought also to be protected. Cement, pottery, soap, paints and varnishes, cutlery, matches, and stationery articles are classes of goods of which the raw material is available in the country, either wholly or in part, and which have a ready market at home. If they are properly aided, these industries will add to the productive power and wealth of the country. As the industrial

This he takes to be a clear proof that the mills are tending to spin finer counts. (Report for 1920-21, p. 57). But Mr. Ainscough does not apprehend a serious loss in the whole of the cotton goods trade of England. He says, "My personal opinion is that, on balance, our trade with India will continue to increase. The trade we lose in coarse grey goods will be more than made up by increased shipments of the finer cloths due to the steady advance in the prosperity of the country." (P. 99.)

development of the country proceeds, many new industries will also claim the attention of the State.

Chemicals, machinery, and railway plant present some difficulty. The growth of chemical industries is of the greatest importance to the general industrial advancement of the country. They thus deserve encouragement at the hands of the State. But as the price of chemicals enters largely into the production of various kinds of manufactures, these latter are sure to be adversely affected by any import duty that may be imposed on chemicals. A bounty in such a case would seem to be a more suitable form of assistance than tariff protection. Any way, the question will require very careful handling. The same thing may be said of machinery. It would be hardly right for India to continue to depend for an indefinite period on foreign countries for the supply of machines for her manufactories. If she has to take her place among the industrial nations of the world, India must manufacture her own machinery. For such a purpose, India has ample raw material. But a duty on machinery will increase the equipment charges of a factory, and thus prove a handicap to the growth of industry generally.

As for railway plant and stores, any duties levied on them will fall on the entire community, and will, besides, tend to retard the development of transport which is so essential to industrial expansion. This difficulty can, however, be partially solved by the local purchase of stores to the utmost extent possible.

These, indeed, are instances of the possible conflict of interests, which may arise from time to time between different industries. It is not unlikely to happen, on some occasions, that producers of a raw material or of an intermediate product will ask for protection, while manufacturers will oppose them. It is even possible that tariff protection afforded to some industries may result in the crippling of others. The danger of unintelligent interference with industry is always present in a protective system. The details of a policy of protection will thus be no easy matter to settle. But if the earnestness and independence of the Legislature and the honesty and foresight of officials can be ensured, the difficulties will not prove insurmountable. Of course, the general principle which will guide the fiscal authorities in deciding between the rival claims of different industries, will be the balance of advantage to the community as a whole.

The question of rates is important. Some of the classes of goods mentioned above are already subject to duty. But as the present rates were fixed with sole regard to revenue, a reconsideration of the whole matter will be necessary when a protective policy is decided upon. And the determination of the rates will require the exercise of great care and caution. They should be high enough to afford protection, but not so high as to unduly or unnecessarily add to the cost of living. The existing general rates may continue for revenue purposes, unless it is found desirable, on financial grounds, to enhance or reduce them. But special rates should be fixed for purposes of protection. As a rule, a protective duty of 20 or 25 per cent. ought to be sufficient. In exceptional circumstances, however, higher rates may be justifiable. In this connexion, a serious drawback, which is characteristic of high duties, must not be lost sight of. They always have a tendency to encourage smuggling and put a heavy strain on the honesty of officials. In the interests of protection, it will perhaps be found necessary to expand the free list. All raw materials of industry should be allowed to enter the country duty-free.

Market is one of the most important requisites

for the successful development of industry. The primary aim of the future tariff policy of India will thus be to secure the home market for the home produce. A carefully adjusted protective system will enable her to put an end to the present abnormal state of things. But an indiscriminate increase of customs duties will produce harmful consequences. It will not only destroy India's external commerce, but prove harmful to her social as well as her economic life.

While it is necessary to modify the present position of too great dependence of India upon England, it is neither possible nor desirable for her to attain absolute economic independence. We cannot wall ourselves in with high protective tariffs, and the attempt to do so is sure to end in disaster. This will be neither economically good, nor morally justifiable. Isolation would lead to stagnation, which in its turn, would result in degeneration. Besides, inter-dependence of all nations is a higher ideal than economic self-sufficiency. If we look at the question from the practical stand-point, we cannot resist the conclusion that the days of self-containment are gone, and are not likely to return. With the rapid development of means of communication, the world is fast becoming one economic unit.

It should also be remembered that the substitution of domestic production for imports is not necessarily a national gain. The fostering of some industries may entail an unnecessarily heavy burden on the community without securing a corresponding advantage to it. In such cases, protection would mean sheer loss to the nation. The best thing for India to do will, therefore, be to concentrate her energies on the production of such articles as she will find it possible to make, under the changed circumstances, at less cost and with greater efficiency than other countries, and to import those articles which she can buy cheaper than make at home. It is not likely that, for at least some time to come, she will find it advantageons to embark upon the production of goods involving secret processes, or requiring exceptional technical skill or the use of highly specialised machinery, such, for instance, as synthetic dyes, delicate scientific instruments, and watches.

Each industry seeking protection must thus establish the validity of its claim. Protection should begin only when a particular industry is fully equipped to take advantage of it. And it should be continued only for a reasonable period, and not indefinitely. As soon as the

protected industry is able to stand on its own legs, or it is found that it has no chance of proving a success, protection should be withdrawn. The exact period for which protection may be afforded will, of course, depend upon the nature of the particular industry and other circumstances. But fifteen years would seem to be a reasonable period in most cases. If, after the lapse of the specified number of years, it is found, as the result of careful examination, that the industry has made satisfactory progress, but that some more time is needed to place it on a footing of stability, the period may be extended. At the end of the term of apprenticeship, every protected industry should be allowed to breathe the vitalising air of freedom. Competition will then give it strength and vigour. To continue protection after the need for it has ceased will be to encourage indolence and inefficiency A policy which seeks to keep the industries of the country in perpetual tutelage can only result in decadence and retrogression. The danger, which Prof. Smart points out,—"once an infant, always an infant",—is real, and must be guarded against. We want in India strong, healthy industries, not perpetual infants. The great evil of a protective system is the growth of

vested interests. This can only be prevented or checked by the formation of a wide-awake public opinion from the very beginning.

The temporary character of a protective duty should be particularly emphasised when the article protected is one of the necessaries for the poorer sections of the community. The immediate tendency of protection is to affect in almost entirely opposite directions the interests of producers and consumers, although, in the long run, their interests are identical. Of course, producers are also consumers, and consumers, generally speaking, are producers of some sort or other. Both these classes are thus, ultimately, benefited equally by an improvement in the general well-being of the community. But in regard to particular commodities, it may frequently happen that, while the producer will derive an unconscionable gain from a protective duty, the consumer will suffer an undeserved loss. It will be the duty of the State always to hold the balance between all parties. On some occasions, it may even be necessary to take into special consideration the interests of the consumers, who are generally the weaker party. It is of the utmost importance to ensure that the tariff policy of the country is determined for

the good of the community as a whole, and is not dictated either by the manufacturers of England or by the mill-owners of India.

While protection should be temporary in most cases, it would be wrong to regard protective policy as a "necessary evil."[1] Most people would rather be inclined to consider it as a necessary good, for protection is advocated in India chiefly as a means of national reconstruction. This, however, is a more or less academic question.

The arguments which have been advanced in favour of withdrawing protection at the earliest possible moment do not, of course, apply to industries which are essential for purposes of defence, or which are of vital importance to the economic life of the people. Such 'pivotal' or 'key' industries will require continued assistance.

Special protection may sometimes be necessary against foreign goods favoured by such measures, as dumping, bounties, subsidies, or transport concessions. Measures like these often have for their object the supplanting of local produce by

[1] It is interesting in this connexion to recall the opinion of Kobatsch, who held that protective measures "are a suitable means of guarding the interests of a particular national economy; they are a necessary evil of historic origin which will disappear as it has come when it has lived its day."

foreign produce with the aid of an artificial advantage. In order to equalise the conditions of production, it may be desirable in such cases to levy a duty on the imported product. But the mere fact that a particular country affords protection to its industries will not be enough to justify the imposition of prohibitory duties in India. These measures may, in fact, be either benignant or malignant. When the object is merely to encourage a young industry, there is no cause for complaint. A case of dumping arises when goods are sold in the Indian market below their cost prices or at prices lower than those at which the goods are currently offered in the country of manufacture. Dumping may, however, be accidental. When the surplus goods of a foreign country are sold at low prices at a time when the home market is in a depressed condition, no objection can reasonably be taken to such sale. When, however, a policy of dumping is resorted to with the deliberate and persistent object of killing an Indian industry, a protective duty would be justifiable as a measure of defence. Such dumping, as has been rightly observed, produces a feeling of insecurity in the corresponding industry of this country, which diminishes the incentive to development.

Anti-dumping measures have been adopted in various countries. In the United States, it is unlawful for any person to import dumped goods into the country. The Tariff Act, 1907, of Canada provides for the levy of a special duty on dumped goods.[1] In India, a special 'anti-dumping' duty, equivalent to the difference between the selling price of the article in this country and its fair market value in the country of origin, may very properly be imposed in order to counteract the evil effects of a foreign-dumping policy.

The influence of a protective policy on prices is a matter which should be carefully considered. It is mainly through prices that a protective duty affects the foreign, as compared with the local, produce. The principal use of a tariff is, in fact, to secure differential advantages in markets. But it is extremely difficult to estimate beforehand the possible effect of an import duty on the price of the article on which it is levied. A very small duty may sometimes have no effect on prices at all. But, as a rule, when an import duty is imposed on a commodity, the tendency of the price is to rise by the full extent of the duty. But the actual rise

[1] *Vide* Report of the Committee on Commercial and Industrial Policy After the War, pp. 44—46.

in price is seldom equal to the amount of the duty. The imposition of the duty disturbs the equilibrium of demand and supply, and the price at which a fresh equilibrium is established depends, first, upon the elasticity of the demand, and, secondly, upon the elasticity of the home production as compared with that of the foreign production. If, as a result of the duty, there is no fall in the demand, or if the home production fails to increase, the whole of the duty appears in the price, and, consequently, the entire burden falls on the consumer. If, on the other hand, the demand tends to decrease, or the supply of the home produce shows a tendency to increase, the rise in the price of the article is less than the amount of the duty. In such a case, the burden is borne in part by the foreign producer who, in order to retain the market, is compelled to curtail his profit. Prof. Pigou is right in expressing the view that "a part of the direct burden of import duties is, in general, shifted permanently on to the foreigners."[1]

[1] According to Prof. Pigou, this takes place because the ratio of interchange is altered in favour of the taxing country. Vide *Protective and Preferential Duties*, p. 23.

Prof. Marshall is of opinion that a part of such burden is borne by the foreign producers in the following cases: (1) if one country is the chief consumer of a thing for which another has special natural advantages, a tax on it may cause the exporters to work at barely remunerative prices; (2) when producers in one country

Prof. L. V. Birck, a Dutch economist, draws attention to another side of the question. He says, "The duty, which increases the price at home, will often depress the world-price. The consumers of the importing country, who must now pay import duty, are not able to pay as much for the goods, duty unpaid, as they were before, while the duty has further caused an increase in the quantity in the country itself, which again means a smaller demand on the world market."[1]

The main object of a protective duty is to secure an increase in the price of the commodity protected, and if the price fails to rise, this object is partly frustrated. It is not, however, wholly frustrated, because the fact that the foreign producer is compelled to work under less advantageous conditions is an indirect gain to the home producer. But whether the rise in

have set themselves to cater for the special requirements of another, they will go a long way towards meeting any import duty that is suddenly sprung upon them, until they have made other arrangements for utilising their resources; (3) when a particular brand yields monopoly profits high above the normal, such profits can be annexed in part.

Mr. J. A. Hobson, on the other hand, holds that "the ordinary notion that 'the foreigner will pay' the import duty, is void of substance. The circumstances under which he would bear some portion of the duty are so rare and so incalculable that no government officials could be safely entrusted with the adjustment of such a tariff." *Taxation in the New State*, p. 134.

[1] *The Theory of Marginal Value*, p. 257.

price is large or small, there is, as a rule, some rise. Moreover, the increase is not always limited to the prices of the dutiable goods alone. A change in the price of one commodity influences the consumption and, therefore, the prices of other commodities. It is also necessary to determine the effect of protective duties on production-costs. If the costs of production of protected articles rise along with the rise in their prices, no advantage is gained. But profits can be secured if duties are levied in such a way that production-costs may not rise at all or rise to a less extent than the rise in prices.

The rise in prices is temporary or permanent according as the effect of a protective duty is wholesome or otherwise. It may happen that the imposition of the duty will lead to the investment of larger capital in the industry, the adoption of improved methods of production, and the establishment of new factories. In such a case, the increase in the size of the enterprise, securing economies in natural resources, labour, and capital, and making organisation more efficient, will reduce production-costs, and the growth of local competition will ultimately bring down prices. On the other hand, it is possible that the protected manufacturers will remain

satisfied with the gain secured to them by the duty, instead of exerting themselves to improve the industry. The rise in the price will then tend to become permanent.

When, as the result of the policy of protection, foreign competition is eliminated, the price of the article in question will be determined by competition among domestic producers. It is not improbable that, under such circumstances, the protected manufacturers will combine in order to maintain a quasi-monopoly price. The State will then find it necessary to take prompt action. And one or all of the following courses will be open to it. Protection may be withdrawn as soon as such an undesirable effect manifests itself, or some legislative measure may be enacted to declare such combination illegal, or a special tax may be levied on the excess profits of the enterprise. The legitimate object of protection is to foster industries, and not to put large profits into the pockets of manufacturers. Under no circumstances, would the State be justified in taxing the poor to benefit the rich.

A tariff is often described in Europe and America as the 'mother of trusts,' and in so far as this description is correct, it must be regarded as an evil. But combinations, in

themselves, are not undesirable. They often lead to the maximum efficiency of machinery, capital, labour, and administration. But when they become monopolies, and their real object is found to be, not the perfecting of organisation, but the regulation of output and prices so as to earn unconscionably high profits, they must be discouraged.[1]

Speaking in a general way, it may be said that protective duties will tend to add to the cost of living. Such disadvantage is likely, however, to be counterbalanced, in part, if not wholly, by an increase in the income of at least some classes of the population, provided the right commodities are selected for protection. The establishment of new industries will increase the demand for labour, and, consequently, wages will rise. This rise in the wages of industrial labourers will affect the wages of agricultural labourers, for there is no hard and fast line of division between these two classes of wage-earners. The middle classes will gain in so far as the managers, supervisors, and clerks will be drawn from these strata of society. The

[1] The Committee on Commercial and Industrial Policy point out that the attempts made in different countries to establish State control of monopolies have been directed towards (1) judicial and administrative regulation and limitation, and (2) the securing of publicity.

remuneration of capital is likely also to increase. Whether or not the increase in the incomes of the different classes of the community will compensate them for the loss suffered by them in the shape of the addition to the cost of living is a matter which time alone will show. But it is probable that capitalists and wage-earners will be benefited by the new policy to a greater extent than the men belonging to the clean-handed or the learned professions.

It is more than probable that the adoption of a protective policy by India will induce foreign firms to establish themselves in the country in order to get the benefit of the protective tariff. The authors of the Report on Constitutional Reforms expressed the belief that the protected industries would be "largely financed by foreign capital attracted by the tariff." Mr. T. N. Ainscough, Senior Trade Commissioner for England in India and Ceylon, suggests in several parts of his two interesting Reports that British manufacturers should start branch factories in India. And when British firms establish themselves here, other foreign firms will soon follow suit. It would certainly be wrong to object to such establishment on the mere ground that the owners of these concerns are persons of foreign

extraction. A feeling of antipathy towards foreigners ought to be strongly deprecated. But the treatment which Indians have in the past received at the hands of foreign capitalists cannot but make them apprehensive in regard to the future. It has always been the policy of the Government of India not only to maintain an open door in this respect, but to attract foreign capital to the country by various inducements. As a result of this policy the profits of industry have left the country to swell the riches of foreign nations. And the only benefit which the people have so far derived from the prosperous foreign undertakings has been, to use the words of a British official, that a certain number have earned wages "in subordinate positions, or by doing coolie work."[1]

Exploitation has, indeed, been the watchword of foreign capitalists. And in this work they have always received the fullest measure of support from the Government. Not only has no stimulus been afforded to indigenous enterprise, but foreigners have been favoured as against the children of the soil. No attempt has been made to conserve the mineral resources of the country, and the well-being of the labourers has,

[1] Sir A. Chatterton, *Notes on Industrial Work in India*, 1905.

until recently, been sadly neglected. But there is nothing in this to cause surprise. Discussing the different aspects of the question of the export and import of capital in an admirable work, a well-known writer observes: "History shows that capital may be used for purposes of *exploitation* in the worst sense of the word. European relations with India in earlier times, and in more recent years with parts of Africa and South America, are particularly flagrant examples. Capital has been employed in numerous instances to drain countries of their resources, to weaken them economically, and to degrade them morally."[1]

It was the fear of further exploitation which led ardent patriots like Dadabhai Naoroji and Gopal Krishna Gokhale to hesitate to ask for a protective policy for India. They apprehended that the benefits of protection would be reaped by foreign capitalists, while the poor people of India would be saddled with taxes.[2] But even

[1] C. K. Hobson, *Export of Capital*, p. xiv.

[2] Dadabhai Naoroji wrote many years ago: "India sorely needs the aid of English capital; but it is English capital she needs, and not the English invasion to come also, and eat up both capital and produce." *Poverty and Un-British Rule in India*, p. 229.

Mr. G. K. Gokhale said in 1911: "There are two kinds of protection, the right kind and the wrong kind. . . . Influential interests, influential combinations, influential parties in England, who can have ready access to the Secretary of State, to whom we have no access, will not fail to take the fullest advantage of the

more serious than economic exploitation is the danger of political influence[1]. It is unfortunately true that the influence of the European mercantile community of India is often exercised in opposition to the political rights and aspirations of the people. One cannot fail in this connection to recall the various acts of oppression committed by the indigo-planters about the middle of the last century in Bengal, and in more recent years in Champaran.[2]

Some incidental disadvantages of foreign capital are also worth noting. Any considerable importation of foreign capital will lead to an increase of what are called the Home Charges, the amount of which is already large. Besides, as such capital will be imported in the shape of

situation, and this huge engine of protection, which is a vast power, will be employed, not in the interests of the people of India, but in the interests of those parties." And again: "The factories whi will receive the protection are those run on European lines, and is no use disguising the fact that most of these factories are in European hands, and the profits go to Englishmen." Mr. Bhupendra Nath Basu also expressed similar sentiments. *Vide* Debate in the Indian Legislative Council, March, 9, 1921.

[1] With regard to the political danger arising from foreign capital, C. K. Hobson says, "In cases where the borrowing country is weak, lenders may consider that their interests are best served by encroaching upon the political independence of the borrower, and the government policy of the lending State may be formed accordingly." *Export of Capital*, p. xxi.

[2] For detailed accounts of the indigo troubles in Bengal, see Buckland, *Bengal under Lieutenant-Governors* and Mitra, *Indigo Disturbances* Sir Sankaran Nair's Note of Dissent to the Despatches of the Government of India, 1919, gives a short but accurate account of the distress in Champaran.

goods, the large influx of foreign goods will prove harmful to indigenous industries. Lastly, the organisers of foreign concerns will, more often than not, import the stores necessary for their use from their own countries, thus retarding the industrial development of India.

Adequate safeguards are, therefore, needed to prevent the evils which usually accompany foreign capital. It is necessary in this connexion to remember the distinction between loan capital and entrepreneurs' capital. In the former case, only the interest goes out of the country; in the latter, the profit as well. The history of other countries tells us that it is only in the earlier stages of industrial development that foreign entrepreneurs' capital is considered necessary. As a country progresses in industrialization, every effort is made to replace entrepreneurs' capital by loan capital, which, to use the words of a well-known economist, "leaves in the possession of the debtor country the excess of its earnings above interest, thus operating to enrich the latter more rapidly and at the same time eliminating the unavoidable personal influence of the foreign capitalist on the domestic economic policy" [1]. If the want of capital be found to

[1] Grunzel, *Economic Protectionism* p. 254.

prove a real hindrance to industrial development by indigenous agency, the Government may borrow in Europe or America, and lend to Indian industrialists. The loan market is now becoming more and more international, and as the credit of the Indian Government is good, there ought to be no difficulty in obtaining the necessary amount of loan capital.

Of course, no one will grudge to pay the legitimate rate of interest for the use of capital, such as is paid by borrowers in other countries. What in India is really objected to is not so much foreign capital, as control of industrial enterprises by foreigners. At present, a substantial proportion of the capital invested in concerns managed by Europeans is owned by Indians, but there are extremely few Indians on their Directorate Boards or in any positions of real responsibility and influence. One remedy for the present state of things is to encourage mixed enterprises which offer equal opportunities to Indian and European capital, skill, and organising ability. The promoters of prospective foreign ventures may be compelled to open their shares to Indians as well to Europeans. To facilitate the attainment of this object, all flotations should be in rupee currency. Further, the law relating

to the formation of Companies may be so amended as to provide for the adoption of a system of proportional representation for the election of the Directors of every Company or to make the appointment of at least one-half of the Directorate Indian in personnel. Similarly, the existing foreign concerns may be partly nationalised. If the foreigners obstinately refuse to come to reasonable terms, a penalty in the shape of an excise duty or sales tax may have to be thought of.

It would be very desirable to avoid all racial questions in matters connected with trade and industry. But this would be possible only when the foreign entrepreneurs who derive so much benefit from their connexion with India agree to accord fair and equal treatment to Indians. Of course, if foreigners set up their skill in the country and impart it to the people, all cause for dissatisfaction will disappear[1]. But if they continue their present policy of domination and exclusion, things are sure to go from bad to worse.

[1] It is interesting in this connexion to note that Count Okuma advocated the admission of foreign capital into Japan; but he wrote, "In such an event, however, foreign capitalists intending to invest in Japanese industries should recognise the advisability of teaching the working of such industries to the Japanese, for if they insist upon employing officers, engineers and workmen of their own nationalities, it is likely that they will find their undertakings to be failures, or, at the best, to yield only small profits". *Fifty Years of New Japan*, Vol. I, p. 642.

Now that India is self-conscious, it is not likely that she will allow her children to remain any longer in the position of hewers of wood and drawers of water, even in fields industrial.

We come now to excise duties. Such duties as are imposed on alcoholic liquors and other intoxicants call for no comment. But countervailing excise duties are of a different character. The theoretical justification for the imposition of such duties is to uphold free trade principles. These duties were originally levied in India to neutralise the protective character of the cotton import duties. The injustice of the measure was so great that it called forth remonstrances from all fair-minded persons, including some high British officials.[1] If a policy of protection is now adopted, there will be no room for excise duties. These duties tend to discourage local production. Besides, their assessment and collection involve a searching enquiry into production and the use of an expensive and cumbersome machinery.

Prof. Pigou is of opinion that a somewhat

[1] Mr. C. C. Stevens said in 1894: "It certainly appears at first sight to be driving the doctrine of free trade rather hard to invite the legislature of a country to impose a somewhat troublesome and unproductive tax, in order that its own manufactures may be free from the suspicion of advantage, however slight, over imported goods". Proceedings, Imperial Legislative Council, 27th December, 1894.

greater advantage would be obtained by a taxing country if a given revenue were collected by a protective import duty, instead of by a customs *plus* excise duty. There is, however, reason to expect that the latter method of raising revenue would, in general, have a smaller effect in raising the price of the taxed article, and, therefore, in injuring consumers. But he holds that, on the other hand, a part of the injury to consumers inflicted by protective duties is compensated by a gain to producers within the country, whereas no part of the injury inflicted by a customs *plus* excise duty is thus compensated.[1]

It is true that the burden of a countervailing excise duty tends to fall on the producer, rather than on the consumer. But the greater part of the cotton excise duty is not countervailing, for the Indian cotton goods which compete with foreign manufactures are only a small fraction of the total of goods on which the duty is levied. In respect of the bulk of cotton goods, therefore, the duty falls on the consumer. The only ground on which an excise duty can reasonably be supported in India is the small measure of protection which it affords

[1] Protective and Preferential Duties, Ch. I.

to the hand-loom industry. It would be going beyond the scope of this subject to discuss whether the financial exigencies of the Government would justify the imposition of a tax in itself so objectionable[1].

Export duties stand on a footing entirely different from that of import duties. The burden of an export duty falls on the domestic producer, unless the article happens to belong to the category of a monopoly in which case it is borne by the foreign consumer. Ordinarily, therefore, an export duty places domestic produce at a disadvantage as compared with foreign goods in the foreign market, and thus tends to discourage home production. Such a duty should, therefore, be imposed only if there are special reasons for its imposition. At present, revenue considerations dominate the policy underlying export duties. But here also, a policy of protection, if applied with due care and forethought, may prove useful for purposes of industrial development. Sometimes, it may be desirable to levy export duties on raw materials

[1] In 1911, Mr. M. B. Dadabhoy moved a resolution in the Imperial Legislative Council, urging the abolition of the cotton excise duty. It was supported by the leading Indian members and also by Sir Sassoon David representing an important section of the European mercantile community. But it was opposed by the Government on the ground of loss of revenue and also of possible injury to the hand-loom industry. *Vide* Proceedings, 9th March, 1911.

in order to encourage their manufacture within the country. A duty on hides and skins is a case in point. Unfortunately, however, the present duty of 15 per cent. is coupled with a rebate of 10 per cent., for which there is no justification whatsoever. A strong case can also be made out for an export duty on oil seeds. There is bound to be a continuous demand for this commodity in the home as well as the foreign market, and the local manufacture of the raw material is desirable from many points of view. A home market is more certain and steady than a foreign market, and the conditions in the former are better known than in the latter. A small export duty may, on similar though not equally strong grounds, be suggested on cotton. The retention in the country of bones and other kinds of manure may be secured by means of an export duty, and this expedient would also be justifiable for conserving the mineral resources of the country.

But it would not be advisable to extend this policy too far. A high duty may drive the buyers to look for substitutes for the protected articles. And our unfortunate experience in the past ought to make us careful as to the future. The saltpetre industry was practically killed by

the high duty imposed on it. Indigo also suffered to some extent from the burden of the export duty. An addition to the export duty on jute is sometimes advocated in some quarters. Whatever may be said in favour of an increased duty on raw jute, it would be very unwise to increase the burden on the manufactured article. In this regard, the discussion as to whether jute is an absolute, or only a conditional, monopoly appears to be of merely academic importance. From the practical stand-point, it would be safe to regard jute as a temporary monopoly. Efforts are being made in Germany to find substitutes for jute, and if the price of the article is artificially raised, the industry is sure to be in great danger. There is one feature with regard to jute which introduces a special difficulty into the question. Jute is grown only in one province of India. The other provinces are not concerned in the production, but they are all interested in the revenue which is derived from this source. The temptation is thus strong to raise a large income by taxing this article. But unless the temptation is resisted, they may, though unwittingly, kill the goose that lays golden eggs.

The question of an export duty on food-stuffs is beset with difficulties. It is open to doubt

whether, there is, in a normal year, any exportable surplus of food-grains in the country. Some persons, whose opinions are entitled to weight, hold that the total production of food in India is not sufficient for her own consumption, and if everybody were to be adequately fed, she would be a food importing, not exporting, country. The matter demands a full investigation. As the question stands at present there is something to be said on either side of it. The export of food grains causes a rise in their prices. Now, every person in the country is a consumer of food. The rise in the prices thus affects the whole community. From one point of view, therefore, the levy of an export duty, which restricts the exportation of food, may be regarded as beneficial to the community. But, on the other hand, it is argued that agriculturists, who are mostly poor, and who constitute the bulk of the population, are benefited by the high prices of food-grains under a system of free export, and the well-to-do classes can easily afford to bear a slightly higher burden. In this connexion, it is necessary to enquire whether the increase in the prices due to foreign demand actually reaches the cultivator, or is intercepted by middlemen. If the cultivator gets the

benefit, the case for free export becomes strong. But if the enhanced price goes to enrich the *mahajans* or the enterprising foreign firms, many economists would support a restriction of export by means of an export duty.

Another argument against restrictions is that a fall in value, artificially created, may lead to the substitution of non-food crops for food-stuffs. It must be admitted that there is great deal of force in this argument. But, of course, none of these arguments would apply to periods of famine or scarcity. In such circumstances, not only an export duty, but even absolute prohibition, would be justifiable. But control of exportation would hardly be desirable even in such cases, for interference by Government officers with the course of trade has come to be associated in the public mind with dishonesty and favouritism.

Import duties in India are partly specific, and partly *ad valorem*. The chief merit of specific duties lies in the ease with which they are administered. But they are inequitable in incidence, inasmuch as they fall more heavily on cheaper varieties of goods. They are thus opposed to the doctrine of ability in taxation. On the other hand, *ad valorem* duties are difficult to administer; but they are more equitable. For

the levy of duties *ad valorem* in India, sometimes the invoice values are considered; in other cases, conventional values are fixed for definite periods. On the other hand, in countries like the United States, the goods are taxed according to their value in the local market at the time of assessment. From the administrative standpoint, the Indian system is preferable to the American, but it is less responsive to variations in prices. As a means of affording protection to industry, the latter method is more effective. But it makes so great a demand on the efficiency and honesty of officials that it would be hardly desirable to urge its introduction into the Indian financial system at the present moment.

We come now to the question. What effect will a policy of protection have on the foreign trade of India? This question is not so easy to answer as appears at first sight. One thing, however, is certain, namely, that there will be a change in the character of the trade. India will no longer remain an exporter of raw materials and an importer of finished goods; but these two classes of goods will figure more or less equally on the import and export sides of her transactions. Whether or not there will be a diminution in the total volume of the foreign

trade is more than can be prophesied at present. But even if there be some diminution in volume, it would not be injurious to the best interests of the country. The present trade position of India is wholly abnormal. As has been observed by a well-known writer, the annual statistics of the external commerce of India are not, as in the case of other countries, a barometer of the progress and prosperity of the nation[1]. On the other hand, as has been explained in a previous chapter, her foreign trade has grown at the expense of her indigenous industries and her internal trade. The trade returns of India are thus an index of her economic weakness rather than strength. In no country are the interests of foreign trade and local production always and necessarily identical, and in India they have been, and at the present moment are, almost diametrically opposed to each other.[2]

[1] J. W. Root, *Trade Relations of the British Empire*, Ch. V.

[2] L. S. Amery says, "The volume of trade, more specially, the volume of foreign trade, bears no relation whatever to the total national production or to the national well-being dependent upon it. The national interest in foreign trade lies not in the volume of that trade, but wholly in its character as providing sustenance for industry or opportunity of employment." *Fundamental Fallacies of Free Trade*, p. 98. So also, H. Hirst writes: "If trade is to be profitable to any country in proportion to its volume, it is essential that it should busy itself only with the import of such commodities as the land is incapable of growing or producing, and with the largest export of such commodities as

The future well-being of the country will thus depend not upon the growth of its foreign trade but upon its internal development. A wise policy of protection will lead to industrial expansion, which will far outweigh any possible disadvantage arising from the contraction of its external commerce. It need not, however, be apprehended that the possible decrease in the volume of India's foreign trade will be so great as to affect in any appreciable degree her balance of trade. Moreover, such diminution is likely to be only temporary. The increasing industrialisation of the country will continually add to the purchasing power of the people. Besides, as industrial expansion proceeds, India will produce more and more for foreign markets, instead of remaining satisfied with the home market. And in proportion as her exports increase, she will be in a position to buy more goods from abroad.

So far we have confined our attention to large-scale industries and small organised industries.

the land can and does produce". *Some Business Aspects of Tariff Reform*, p. 3.

This view receives support from J. Grunzel, who says: "When an amount equal to or exceeding that which is gained in foreign trade is lost through the restriction of home production, then there is no gain, but eventually a loss is suffered. Importation and exportation do not stand in relation of direct communication, but are separated from each other by production and consumption, and hence a continually favourable inner economic balance may be able to offset an unfavourable outward economic balance." *Economic Protectionism*, p. 131.

But it would not be wise to neglect cottage industries altogether. Apart from their moral value,—and Economics being intimately related to Ethics, moral considerations cannot be wholly ignored,—the economic importance of cottage industries is very great. Every encouragement should, therefore, be afforded to them. Very little can, however, be done in this direction by means of the tariff. But bounties or subsidies may, in carefully selected cases, be of considerable assistance. The hand industries of weaving and spinning are now in a decadent condition, but they still offer employment to large numbers of people. Their greatest usefulness is that they keep agriculturists employed during the off season, when otherwise they would have remained idle. During these months of the year, the labour of the cultivators and of the members of their families has practically no exchange-value, and the earnings derived from weaving and spinning, though small, help to supplement their income from agricultural work. Hand spinning also offers employment to widows and other persons who are incapable of doing out-door work. The finer fabrics produced by hand have a beauty and excellence which have enabled them to withstand, to some extent at least, the

competition of mill-made cloths. But the coarser kinds of cotton goods have always tended to disappear as soon as they have come into rivalry with the produce of the mills.

Weaving and spinning are industries in which the interests of the producers are nearly co-extensive with the interests of the consumers, and it is extremely desirable to save them from ruin. A great deal can be done by introducing improved appliances, securing for the hand workers better credit facilities, and teaching them better methods of marketing. But the main solution of the problem is to be found in co-operation. The $3\frac{1}{2}$ per cent. excise duty on the produce of the mills is some advantage to the hand-weavers. But this small measure of protection will be of little use to the industry unless more effective methods are adopted for its resuscitation.

The investigation of various questions, both scientific and administrative, connected with the tariff, will require the establishment of a permanent organisation. Of course, the final decision of questions of fiscal policy will rest, not with this body, but with the Indian Legislature. It may, however, contribute towards intelligent discussion by supplying the necessary information. The Tariff Board will collect all available data on the

tariff laws of different countries and the economic and other conditions under which foreign industries work as compared with the industries of India. It will constantly scrutinise the returns of the internal as well as the external trade of India, and carry out large schemes of investigation from time to time. It will enquire into the operation of the customs system of the country including questions relating to railway rates and shipping freights. The Tariff Board will be in close touch with the Industrial Departments of the Government of India and the Provincial Governments, and will keep a watchful eye on the progress of the various industries, specially those which are protected by the tariff. Lastly, it will be the duty of the Board to investigate the claims of particular industries for State assistance and to suggest changes in the customs laws of the country.

The functions of the Tariff Board should be of a purely advisory character, and it should not be invested with either legislative or administrative powers. No attempt should be made to take tariff questions out of the hands of the Indian Legislature. As Prof. Taussig, President of the first Tariff Commission of the United States, says, "No body, however expert, can

settle, still less dictate, the position which the country shall take on controverted political and industrial questions."

The constitution of such a Board must be devised with great care. The President of the Board should be a judicial officer of high standing or an eminent lawyer, and he should be assisted by a whole-time expert as Secretary. There should be two other members of the Board, both of whom should be non-officials elected by the Legislative Assmbly. The Legislature should elect only such persons as have no private interests of their own to serve, and are able to consider questions relating to the tariff with a sole regard to the welfare of the country. Economists and public men possessing a full and detailed knowledge of the industrial conditions of the country but not connected, either directly or indirectly, with any industrial or commercial concerns, will be fit persons to serve on the Board. On particular occasions, when matters relating to particular industries are under consideration, representatives of such industries and also of the general public may be appointed as co-opted members or assessors, with power to take part in the deliberations, but not to vote. Sinister influence is the chief danger of a protective

system, and must be avoided at all costs. No pains should be spared to secure and maintain the honesty, efficiency, and independence of the Tariff Board.

The conclusion arrived at as a result of a detailed discussion of the tariff question is that a protective policy, wisely applied, will be helpful to the economic reconstruction of India, and will give her a place among the advanced nations of the world. Protective duties will, very probably, add to the cost of living. But a price has to be paid for everything that is worth having. Future gain can only be secured by present sacrifice. The development of productive power is of the utmost importance to the welfare of the country and, in order to secure this object, the people will surely agree to bear the burden of protective duties. Ultimately, the loss is likely to be more than counterbalanced by the gain. The way in which a protective tax is expected to affect the dormant economic forces of a country like India cannot be better described than in the words of Prof. Marshall: "A protective tax", he says, "which helps a young industry to develop its latent strength, may be in the interest of an undeveloped country; even though the tax must inevitably do some hurt to

those few industries, which are manufacturing for exportation. For the energy developed in a few high-class progressive industries may spread over a great part of the industrial system of the country; just as when an iron screen concentrates the whole draught of the chimney on a small part of a nascent fire, it may generate an intense local heat, which spreads and pioneers the way for a broad, strong fire"[1].

But tariff protection alone will not solve the problem of the industrial regeneration of India. Those who expect that a tariff will work wonders are sure to be disappointed in the end. Protection will prove useful if, simultaneously with its adoption, there is a growth of individual enterprise. The State also must adopt various measures to encourage industries. Pioneering and demonstration may often be found extremely useful. Subsidies and bounties may be granted in suitable cases, and dividends may sometimes be guaranteed to Indian Companies so that they may be encouraged to start new industries. At present, foreign imports receive indirect bounties in the shape of preferential rates in transportation both by sea and land. The present policy of the Railway Administrations in India

[1] *After-War Problems*, p. 338.

is to favour foreign goods at the expense of indigenous products. This position ought to be reversed. Internal traffic should, wherever possible, be given greater facilities than traffic with the ports. Freight-rate concessions should be granted to nascent industries, particularly for the carriage of raw materials. In Germany and Belgium, the railways have been used as an instrument for the development of indigenous industries with the most wonderful results[1]. An effort should be made to build an Indian mercantile marine. At present, the whole of the external trade of India is conveyed on foreign vessels, and, naturally, it is directed in the interests of foreigners. If India can develop a shipping industry of her own, it will greatly benefit the economic development of the country[2]. Proper banking facilities should be afforded to indigenous manufactures. A comprehensive scheme of technical instruction should also be devised. But even more important than technical education in schools and colleges is the training of apprentices in factories. It should

[1] *Vide* the opinion of Mr. Lloyd George, quoted in Mr. S. C. Ghose's pamphlet, *State Management of Indian Railways*.

[2] Fisk says, "As a general principle of economics, if we can justify protection to manufactures and agriculture, we certainly cannot deny the right of navigation to an equal consideration." *International Commercial Policies*, p. 247.

be made obligatory on all foreign concerns in India that they should train a number of Indian apprentices[1], and the High Commissioner for India in England should make it a condition of the purchase of stores from British firms that they should admit Indians to apprenticeship.

But the most effective way in which the State will be able to assist Indian industries will be by the local purchase of stores required for the use of the various departments of the State including the railways. The Industrial Commission of 1916-18 reported that the manufacturing capacity of the country had in the past been far from sufficiently utilised by the Government, and this opinion was endorsed by the Stores Purchase Committee, who recommended "the acceptance by the Government of India, as a definite policy, of the principle that all articles required for the public service should be obtained in India, whenever they are procurable in the local market of suitable quality and reasonable price, as well as that preference should be given in all cases to indigenous articles or to those of

[1]On the question of the employment of Indians on the Railway of India, the Indian Railway Committee observed: "The 7,000 (Europeans) were like a thin film of oil on the top of a glass of water resting upon but hardly mixing with the 700,000 below. None of the highest posts are occupied by Indians; very few even of the higher." Report, p. 58. The Committee strongly urged the training of Indians in all the branches of railway activity.

local manufacture, except where it is manifestly disadvantageous to do so." In the matter of industrial development, the Government of India should adopt the enlightened policy pursued by the United States, Germany, and Japan.[1]

Now, supposing India has a protective tariff, the question will be, what use to make of it? It is suggested in some quarters that the Indian tariff should be used as an instrument for bargaining with other countries. It is true that most of the advanced countries adopt this method to further their industrial and commercial policies. But it is open to doubt if India would be wise in following the practice of those countries in this respect. A tariff is at best a dangerous weapon, and if clumsily handled, it is likely to do more harm to the user than to his adversary. Moreover, as has been rightly observed, tariffs are like armaments; when one country increases them, others do the same. India's fiscal policy should, therefore, be one of defence and not of offence. A tariff war is a costly business, and

[1] Count Okuma gives a full account of the various measures adopted by the State to promote industrial development in Japan. Vide *Fifty Years of New Japan*, Vol. I. Mr. T. M. Ainscough says, "The foreign policy of Japan is primarily a forward and active commercial policy. This cohesion and co-operation of all interests for the general welfare is carried to a degree which is not experienced in the case of any other nation." Report 1919, p. 15.

the prospects of success are not always certain.[1] Besides, regenerated India must try to live up to a higher ideal than that of national selfishness and jealousy. A tariff war should, therefore, be the last thing to be thought of by a patriotic Indian as a policy conducive to the welfare of his country.

It remains now to consider the effect of a tariff on the income of the State. There is an intimate connection between the industry of the people and the finances of the Government. Other things being equal, when the one prospers, the other prospers also. If, therefore, as is expected, a protective tariff proves a success, it will lead to an augmentation of the resources of the State. Until recently, revenue was the sole purpose for which customs duties were imposed in India. But, in future, protection, as well as revenue, will be the object of the Indian tariff. Within reasonable limits, the tariff may be able to serve both these purposes; but if pushed to either extreme, the two ends will

[1] The Committee on Industrial and Commercial Policy after the War observe: "There is a tendency to exaggerate the utility of a tariff to any one country in obtaining a reduction of the tariffs of other countries. It is common experience that both sides to an approaching negotiation start by raising their tariff rates to levels higher than are actually held to be requisite for their respective economic interests, so as to leave ample margin for negotiations, and it is rare that the discussions have ended in the reduction by either side of rates below those previously in force, unless such reduction had in fact been decided from the first". *Vide* Report, p. 40.

perhaps become inconsistent with each other. A moderate tariff will thus be the best from the financial stand-point.

As a tariff implies indirect taxation, we are confronted with the question, namely, whether direct or indirect taxation is the more eligible form. A tax is unpopular all the world over; but a direct tax is more so than an indirect one. The very reason, however, which accounts for the disagreeableness of a direct tax makes it preferable. The tax-payer knows exactly how much he contributes to the revenue of the State, and he makes it his business to enquire how the amount is spent. Another great merit of a direct tax is that, if properly graduated, its burden tends to fall more heavily on those who are able to bear it with comparative ease than on the less fortunate classes of society. Again, the incidence of a direct tax is easier to determine than that of an indirect tax. On the other hand, a direct tax is somewhat inquisitorial in its nature, which an indirect tax is not. It is also an advantage on the side of an indirect tax that the payment is made in a manner and at a time likely to be convenient to the tax-payer.[1] But the tendency towards regression

[1] *Vide* Mill, *Principles of Political Economy.*

or inverse graduation is the great defect of an indirect tax.[1] In comparatively backward countries, and specially in countries governed autocratically, indirect taxation is always preferred to direct taxation. But as a community progresses, it tends more and more to rely upon direct taxes as the chief source of revenue for the State.

In India, the Government, until comparatively recent times, shrank from any recourse to direct taxation, lest it might give rise to discontent. Non-official opinion, particularly among the richer classes, both European and Indian, has also been in favour of avoiding direct taxation as much as possible.[2] But now that some form of popular government is about to be established in the country, it will be desirable to combine direct and indirect taxes in such a

[1] Prof. Marshall says: "Many such (indirect) taxes press with heaviest weight on the poorest classes, and with no appreciable weight on the rich; while those which fall chiefly on the consumption of the rich, have never been made to yield a large revenue." *After-war Problems*, p. 319. But J. A. Hobson seems to go too far when he says: "Of all the forms of taxation, tariff duties are the most injurious in their numerous, widespread and incalculable shiftings, in their delays and incidental injustice of their incidence, in the uncertainty of their yield, the costliness of their collection, and the business and political corruption which they breed." *Taxation in the New State*, p. 136.

[2] Even Mr. Gokhale who looked to the interests of the poor more than any other Indian statesman, said on one occasion, "We can raise much larger revenue than we do at present from customs without its proving burdensome to any section of the community."

way that the burden of taxation may be distributed equitably over the whole surface of society. In such a scheme of judicious combination, no section of the community will be overtaxed, and it will be possible to properly safeguard the interests of the poorer sections of the community.

There is, however, one difficulty which suggests itself in this connexion. The resources of the Government of India have now been separated from those of the Provincial Governments. The latter are in charge of departments of administrative activity which are intimately connected with national welfare. But their sources of income are very few, and even these are inelastic. On the other hand, indirect taxation is completely in the hands of the Government of India, and so also are two of the most important direct taxes, namely, income-tax and super-tax. The Provincial Governments must have more resources at their disposal if they are to properly discharge the duties that have been assigned to them. And if they find it necessary to resort to fresh taxation, such taxation will necessarily be direct. Under such circumstances, it would be desirable for the Central Government not to encroach further upon the field of direct taxation, which should be left as far as possible

in the hands of the Provincial Governments.

A word may be said here about the effect of the tariff policy of India on her international relations. It is sometimes said that free trade is the better policy from the international standpoint, for it produces international amity and concord. But this is an erroneous view. As a matter of fact, it can produce as much bitterness, suffering and hostility as protection. If we appeal to experience, we find that the application of the principles of free trade has resulted in the economic degradation and political subjugation of weak nations. On the other hand, protection may enable the weaker communities to defend themselves against the stronger nations, both economically and politically. Solidarity among the peoples of the world is certainly a most desirable object, but it can be attained only by the adoption of the principle of non-interference and the recognition of the right of each people to its maximum economic development. Of course, this is possible under both systems,—protection and free trade. But so long as national frailties remain what they are, protection seems to be the easier method of achieving the object than free trade[1].

[1] J. S. Hecht expresses a similar opinion in his *Real Wealth of Nations*. Grunzel describes the effect of protection on international relations thus: "In the place of the international division of labour between agriculture and manufactures, assumed by classical

Englishmen often express surprise at the fact that the watchword among Indian politicians, industrialists and business men to-day is protection. This is true, but the reason is not far to seek. If Indians are protectionists almost to a man, thanks are due to the policy which has been so far pursued by the Indian Government in regard to the industries of the country. Indians object not to the principles of free trade but to the way in which these principles are sought to be applied in India. The people of the country are not so thick-headed as to be unable to appreciate the benefits of real free trade, but they may be pardoned if they take the professions of interested supporters of the doctrine with the proverbial grain of salt. Sincere advocates of free trade, however, need not despair. As soon as the country becomes once more self-governed, and she regains her normal economic position, many a free-trader will be found in the ranks of her economists and statesmen. Meanwhile, India must be left free to settle her fiscal policy in the way she finds it best suited to her own needs and conditions.

economics, a division of labour within the sphere of manufacturing appears. If now the development of the productive capacity of a country leads to industrialization, and if industrialization increases the participation of the country in world-economic dealings, it follows that the protective policy, as an important aid to industrialization, must under proper manipulation lead to an extension of world-economic relations". *Economic Protectionism*, p. 342.

CHAPTER VII

INDIA AND IMPERIAL PREFERENCE

The history of the British Empire reveals many changes in the attitude of Great Britain towards the other parts of the Empire. An eminent writer points out that, in the seventeenth and eighteenth centuries, colonies were treated as compulsory markets for the industrial products of England; all attempts at an independent industrial development were suppressed, and both importation and exportation were monopolised for the benefit of the ruling part of the Empire. But the revolt and separation of the United States demonstrated how dangerous such measures of compulsion might become. After that event the effort was to actively encourage the development of colonial production along lines in which competition with the ruling power did not arise. This policy met with the greatest success in the tropical colonies and the great dependency of India, where the encouragement

of the production of high-value raw materials, such as cotton, jute, coffee, and tobacco, not merely brought profits to the colonies and dependencies, but also facilitated and secured the supply of raw materials for the industries of England. In many parts of the Empire, some restrictions are still in force. But the Self-Governing Dominions now frame their tariff laws in accordance with their own fiscal requirements and are not debarred even from protecting themselves against the mother country[1].

The latest change to be brought into use is the system of preferential trade. It was recommended in the English Colonial Conferences which have been meeting since 1887, and the first step was taken by Canada, when in 1898 she granted a duty reduction of twenty-five per cent., which was increased in 1900 to thirty-three and one-third per cent., on the goods imported from the United Kingdom. This was followed by similar measures adopted by the South African Union, New Zealand and Australia. For many years, however, there was no response from the side of Great Britain, although Imperial Preference formed one of the chief planks of the political platform of the

[1] Grunzel, *Economic Protectionism*, pp. 45 and 46.

Conservative Party in the country. The Liberals were opposed to such a policy, and during the period of their ascendancy the question was practically shelved.

The late war, however, brought the question of Imperial Preference again into prominence. The reason was two-fold. In the first place, public attention was directed to the extent to which the United Kingdom was economically dependent upon foreign countries, particularly for the supply of raw materials. On April 26, 1917, the Imperial War Cabinet passed a resolution, which was afterwards approved by the Imperial War Conference to this effect: "The time has arrived when all possible encouragement should be given to the development of Imperial resources, and specially to making the Empire independent of other countries in respect of food supplies, raw materials, and essential industries. With these objects in view, this Conference expresses itself in favour of the principle that each part of the Empire having due regard to the interests of our Allies should give favourable treatment and facilities to the produce and manufactures of other parts of the Empire."[1]

[1] Quoted in Greogry, *Tariffs*, p. 271.

Of the questions referred to the Committee on Commercial and Industrial Policy After the War, the two most important were: (i) "to what extent and by what means the resources of the Empire should and can be developed", and (ii) "to what extent and by what means the resources of supply within the Empire can be prevented from falling under foreign control". In order to gain these objects, the Committee recommended the readjustment and development of the economic relations of the Dominions and Colonies and of India with the United Kingdom.

The second reason was the growth of the idea of Imperial unity. The whole-hearted and ungrudging assistance rendered by the Dominions, Colonies and Dependencies to the mother country in the greatest crisis with which she had ever been faced considerably strengthened the feeling of solidarity within the Empire. The desire now became common to confirm the bond of sentiment by 'the consolidating force of material interests.' Years ago, Mr. Chamberlain had declared: "The establishment of commercial union throughout the Empire would not only be the first step, but the main step, the decisive step, towards the realization of the most inspiring idea that has ever entered into the minds

of British statesmen." The advocates of Imperial unity think that the time is now ripe for giving practical shape to this sentiment.

It is generally believed that Imperial Preference will not only place the relations between Great Britain and the 'sister nations' on a firmer footing than at present, but would apply a stimulus to British industry. On the other hand, it is also claimed that such a policy will prove immensely beneficial to the Dominions. As between Great Britain and the Dominions, therefore, preferential trade is a matter of mutual benefit.

In all discussions about Imperial Preference, India is mentioned only incidentally. In 1903, Lord George Hamilton, Secretary of State for India, drew the attention of the Government of India to a Resolution which had been passed in 1902 at the Conference of Colonial Premiers in favour of preferential tariffs as between different members of the British Empire, and intimated his desire to receive from them any observations and suggestions which they might wish to make from the point of view of Indian interests.

The Government of India sent a despatch in reply to this letter in which they discussed at some length the various economic aspects of the

question. They observed at the outset that the recommendation was of an extremely general and indefinite character, and was hedged round with many qualifications and provisos. After examining the figures of the import and export trade of India, they pointed out that about three-fourths of the total imports of India came from the British Empire, and that of the remaining one-fourth a substantial part consisted of articles such as petroleum, beet-sugar, wines, silk manufactures and the like, which the British Empire either did not produce or was not in a favourable position to supply. They pointed out, further, that the imports of India from the British Empire exceeded the exports thereto by 7½ millions sterling; while her exports to foreign countries exceeded her imports from them by about 38 millions sterling and the total exports of India exceeded her total imports by upwards of 30 millions sterling. In this connection they remarked that inasmuch as India was a debtor country, she was dependent on her trade with foreign countries for the discharge of her international obligations.[1]

With regard to exports, the Government of India observed that the situation was somewhat

[1] Letter, dated 22nd October, 1903, Cd. 1931.

different. The value of raw materials, they said, approximated to 50 per cent. of the total value of India's exports. The articles which formed this group were required by the importing countries for their manufacturing industries, and it was to their interest to admit them on the easiest possible terms. Thus, seeds were admitted free everywhere except in Germany, Italy, Austria-Hungary, Russia, and the United States, and in the three latter countries duties were levied only on one or two classes only. Raw cotton from India was free except in Italy and Russia. Raw jute was dutiable only in Russia. Raw hides and skins were free except in the United States and with some slight exceptions in France and Japan. Similar remarks would apply to numerous other articles of this group. Even when duties were imposed they were, as a general rule, of moderate amount. In the three other classes of goods, however, the privilege did not obtain except in the United Kingdom and Holland, and in the former country tea, coffee, tobacco and unrefined sugar were subject to very high duties. Excluding these four articles, India's exports to the United Kingdom in the three classes of food-stuffs, manufactures, and other articles, obtained free entry.

Raw materials also enjoyed the same advantage.

The net result, observed the Government of India, was that Indian exports approximating to one-half of the entire volume of her export trade were admitted free of duty into the consuming markets, while of the remainder a considerable proportion was either subject to relatively moderate duties, or, as in the United Kingdom, to duties imposed for purely revenue purposes and with no attempt to differentiate against her.

The Government of India then went on to discuss in what way the then existing condition of things was likely to be affected by the inclusion of India in any scheme of inter-Imperial preferential tariffs. Two possible alternatives presented themselves to the Government. In the first alternative, India might join the scheme on exactly the same footing as any of the Self-governing Dominions, and would, if there were a need, impose duties of a protective character, against imports from the United Kingdom and other parts of the British Empire, subject to the condition that so far as her circumstances permitted she would give substantial preferential treatment to the products and manufactures of the United Kingdom. This alternative, however the Government of India did not consider to be

within the sphere of practical politics, for all past experience indicated that, in the decision of any fiscal question concerning India, powerful sections of the community in Great Britain would continue to demand that their interests, and not those of India alone, should be allowed consideration.

In the second alternative, India would maintain her import duties on British and Colonial goods, at such low general rates, equal to or somewhat less than that in force at the time as might be required for revenue purposes, and would impose a slightly higher rate on foreign goods, sufficient to give the former class a preference of 25 per cent. or thereabouts. The result of this alternative might be of appreciable advantage to the United Kingdom. But so far as India was concerned, the balance of advantage was distinctly adverse; because, in the first place, the Government of India might be forced to shape their policy not in accordance with their own needs, but according to the interests and demands of other constituents of the Empire; and, secondly, they would lose a portion of the revenue which they received at the time from British and colonial imports, and it would be extremely difficult to make up the deficit by enhanced duties on foreign goods. The Government

also pointed out that the last and greatest source of injury to India would be retaliation by foreign countries. And in this connection they emphasised the fact that India was a debtor country, and the only means consistent with national solvency of discharging this obligation lay in the preservation of a substantial excess of exports over imports.

The Government of India summarised their conclusions as to the question of the participation by India in a policy of preferential tariffs within the Empire, thus:

"Firstly, that without any such system, India already enjoys a large, and probably an exceptionally large, measure of the advantages of the free exchange of imports and exports.

Secondly, that if the matter is regarded exclusively from an economic stand-point, India has something, but not perhaps very much, to offer to the Empire; that she has very little to gain in return; and that she has a great deal to lose or to risk.

Thirdly, that in a financial aspect, the danger to India of reprisals by foreign nations, even if eventually unsuccessful, is so serious and their results would be so disastrous, that we should not be justified in embarking on any new policy

of the kind unless assured of benefits greater and more certain than any which have, so far, presented themselves to our mind."[1]

No step was taken by the Government of India in the direction of preferential trade until 1919, when a Bill was passed imposing a duty on hides and skins coupled with a rebate in favour of Great Britain, the Dominions and other British Possessions. This was suspected by the public to be a measure involving a principle of more than fleeting interest, but the Government of India denied that it was proposed as part of a scheme of Imperial Preference.

Nearly two decades have elapsed since the Government of India expressed their views on the question. In the meanwhile, there have been a great increase in the volume and extent of the foreign trade of India and a considerable change in its direction. The character of India's commerce has, however, remained substantially unaltered. An examination of the present situation confirms this opinion. But here we are confronted with a difficulty. The abnormal conditions created by the war still subsist to some extent, and it will be some time before they give place to normal conditions. The

[1] Letter, dated 22nd October, 1903, Cd. 1931.

annual statistics relating to Indian trade, therefore, have to be used, for purposes both of comparison and forecast, with a certain amount of reserve and circumspection.

The approximate total value of the annual foreign trade of India may be taken as Rs. 650 crores of which exports are worth about Rs. 350 crores, and imports Rs. 300 crores.[1] Nearly 61 per cent. of the imports comes from the United Kingdom, 5 per cent. from the rest of the British Empire, and 34 per cent. from foreign countries. As for exports, nearly 22 per cent. goes to the United Kingdom, about the same percentage to the other countries of the Empire, and 56 per cent. to foreign countries. India does not import goods in considerable quantities from any of the Self-Governing Dominions, while Australia is the only Dominion to which Indian commodities are exported in any appreciable amounts. It is worthy of note that, as compared with the figures of 1903, while there has been a steady and continuous increase in the amount of imports from the United Kingdom, there has been

[1] In 1920-21, the total value of the foreign trade was Rs. 674 crores, of which exports were worth 292¼ crores, and imports, 381¾. These figures were, however, wholly abnormal. The figures for 1919-20 may be said to have approached more closely to the normal, being Rs. 300 crores for imports and Rs. 346½ crores for exports. *Vide Review of the Trade of India*, 1920-21.

a decrease in the proportionate share of that country in the import trade of India. The same remark also applies to the rest of the Empire. As for exports, there has been a growth in the volume of the trade with the United Kingdom, but a decline in percentages, while the other countries of the Empire, taken together, have increased their total as well as their proportionate share.

Coming to the character of the foreign trade, we find that the bulk of India's imports from the United Kingdom consists of manufactured goods, while much the greater part of her exports to that country consists of either articles of food or raw materials for industries. This is true also, to a greater or less extent, of the trade with the Self-Governing Dominions, jute manufactures being almost the only exception. The goods supplied to India by the United Kingdom and the Self-Governing Dominions generally compete with the products of foreign countries; but commodities exported from India to the United Kingdom and the Dominions compete only in a few cases with commodities from other countries. For instance, in the rice trade with the United Kingdom, India holds her own; in tea, Ceylon comes next to India; in coffee, there is successful competition; in wool, India lags far

behind the Dominions; in jute, India has a world's monopoly; in seeds generally, she has the bulk of the market, although in cotton seed India and Egypt are in close competition, and in linseed, Argentine is a keen rival; in hides, India holds her own. Canada imports from India jute manufactures, tea, lac and shellac, and exports to her motor-cars and some miscellaneous articles. South Africa's purchases from India consist of rice, cotton piece-goods and tea, while her exports to her are negligible. Australia takes from India jute manufactures, rice, vegetable oils, tea and coffee, and sends horses, railway plant, and oilman's stores. New Zealand purchases from India jute manufactures and sells her a few miscellaneous articles. The trade of India with the other British possessions is more important than with the Dominions. Ceylon imports from India rice and other food grains, seeds and jute manufactures, and exports to her metals and spices. The imports of the Straits Settlements from India consist of rice and other food grains, cotton yarns and manufactures, jute manufactures, seeds, and tobacco; while the chief exports to India are mineral oils, spices, and dyeing and tanning substances. Sugar is the principal article of import from Mauritius, while

food-grains and jute manufactures are the chief exports to that colony [1].

Let us now see whether, as things stand at present, Great Britain has anything to offer to India under a scheme of Imperial Preference. In order that India may derive any benefit from such a policy, preferences must be given in Great Britain to goods which are purchased by her from India in considerable quantities. Such commodities are raw cotton, hides and skins, jute (raw and manufactured), lac, rice, raw rubber, seeds, tea, wheat, raw wool and minerals. Of these, rice, wheat and tea are articles of food, and any preferences in respect of them would mean the levy of duties or increase in the rates of duty on imports of these articles from countries other than India. This would result in a rise of the cost of living, which is hardly likely to be tolerated by the people of a democratic country like England. There is at present a small preference granted to India in respect of tea.[2] All the other articles mentioned above are raw materials for industries. As prices of manufactured goods depend largely upon the prices of raw materials, preferential duties levied on

[1] Vide *Review of the Trade of India*, 1920-21.

[2] The rate of duty on tea was reduced a few months ago.

them would lead to an increase of production-costs. As an eminent colonial statesman puts it, "a great manufacturing country such as Great Britain would be mad to impose a tax on raw materials from which she manufactured her goods for export."[1] Such a possibility was definitely brushed aside by the late Mr. Joseph Chamberlain, the greatest advocate of Imperial Preference, who said on one occasion, "I repeat in the most explicit terms that I do not propose a tax on raw materials"

The only manufactured product imported by England from India is jute. "But in this respect the only rival is Dundee. No preference is thus possible in regard to this article. The other imports from India are of comparative insignificance. India's trade with the Self-governing Dominions is, as we have already seen, small, and the preferences now given by them are not of any appreciable use to her. Nor is an extended scheme likely to bring her much profit. The other British Possessions may be ignored for our purpose. They are subject countries,

[1] J. A. Hobson says, "It will be impossible to advocate any new import duties upon either foods or raw materials, in view of the world shortage likely to exist for years to come. With this admission virtually disappears the substance of Imperial Preference." *Taxation in the New State*, p. 140.

The extract is from a speech of Sir William Lyne quoted in Currey's *British Colonial Policy*, p. 245.

and their trade activities are directed not in their own interests, but in the interests of other nations.

Great Britain and the Dominions have thus very little to offer to India under a scheme of Imperial Preference. Let us now consider whether India can offer any advantages to those countries. The most important classes of goods imported by India from England are: cotton manufactures, chemicals, building materials, leather manufactures, hardware, scientific instruments, iron and steel manufactures, alcoholic liquors, motor-cars, railway plant, machinery, rubber manufactures, soap and toilet requisites, stationery articles, woollen manufactures, and cigarettes. Some of these classes of goods compete with goods of local manufacture, and, with the industrial progress of the country, many more classes will also begin so to compete. No advantages can, of course, be given to Great Britain in respect of them. India is now about to adopt a system of protection, and it is necessary to consider how far it is possible to reconcile such a system with preferential trade. As a recent writer puts it, "a policy of protection for producers in any case involves some check to the flow of competing imports, whilst

the grant of preference will quicken this flow."[1] No step should, therefore, be taken which may even in the slightest measure neutralise the effect of the protective policy of India.

There are other classes of manufactured goods imported from Great Britain which compete, not with the indigenous manufactures, but with the commodities of such countries as the United States, Germany and Japan. If preferences are to be granted in respect of these, they will take one of the two following forms. Either the duties on goods imported from England may be lowered, while retaining the duties on goods from other countries at the existing rates; or a surtax may be levied on goods from foreign countries in addition to the existing duties, while keeping the duties on British goods unaltered. In both these cases, however, the result will be a loss to India. In the former, there will be a sacrifice of revenue; in the latter, a rise in prices. Similarly, in the matter of exports, a policy of preference is likely to be detrimental to Indian interests. If a higher rate of duty is levied on exports to foreign countries than on exports to Great Britain, India will run the risk of losing some of her markets. On the other

[1] Gregory, *Tariffs*, p. 295.

hand, if a rebate is granted to exports to Great Britain without changing the rate of the export duty payable by foreign countries, the Indian exchequer will suffer.

Great Britain, of course, will derive much benefit from preferential relations between herself and India. Such relations will not only afford a stimulus to British industry, but will quicken the entrepôt trade of Great Britain which is of immense value to her. If substantial preferences are granted in India to imports from Great Britain, the people of the latter country, taking advantage of such duties, will act as middlemen in respect of goods not produced within her borders. So also, in the matter of exports, they will act as intermediaries between Indian producers and foreign purchasers. Her experience in regard to the preferential duty on hides and skins cannot but serve as an object-lesson to India. The grant of the rebate of ten per cent. places leather manufacturers in foreign countries in an unfavourable position as compared with British manufacturers, and the former are thus driven to purchase their raw materials elsewhere. It is also believed that a considerable part of the raw hides and skins exported to Great Britain finds its way to other countries, to whom it is more profitable

to buy such goods through Great Britain than direct from India. It seems a bit unreasonable to compel India to incur loss in order that she may give middlemen's profits to the people of Great Britain.

Another question to be considered in this connexion is the possibility of retaliation by foreign countries whose interests may be adversely affected by inter-Imperial preferential trade. It is true that these countries are interested in obtaining India's raw produce. But some of India's raw products compete with similar products of other countries, and differential duties may, in other cases, drive purchasers to seek substitutes. It is sometimes suggested that, in case of retaliation, India may hit back again by levying heavy duties on the manufactured goods imported from the retaliating countries. But it is not improbable that India will hurt herself in trying to inflict harm on others. Besides, such a policy may land her in a complex and long-drawn series of tariff wars the end of which it would be difficult to foresee. Retaliation, therefore, is a real and serious danger, which should be kept in view in considering the question of Imperial Preference.

India can only be asked, with some show of

reason, to adopt a policy of Imperial Preference if a gain can be assured to her to counterbalance the probable loss resulting from such a policy. But, as we have already seen, Great Britain has very little to offer to India, and the risk of retaliation is great. Would it not, therefore, be too much to expect the people of India to "allow themselves to be hurried blindfold to the goal at which the prize will be distributed to their inevitable disadvantage?"[1]

As a business proposition, therefore, Imperial Preference cannot be supported from the Indian point of view, however desirable it may be from the standpoint of Great Britain. India's trade with the Dominions is exceedingly small, and may be left out of account. As a matter of fact, the advocates of Imperial Preference always look at the question from the British and Colonial, and not the Indian, standpoint. Even persons who ought to feel grateful to India for what they owe her have the same narrow vision. Sir Roper Lethbridge, for instance, said not very long ago: "In any reasonable scheme for the commercial federation of the British Empire, India must occupy the chief place after the mother country. At this moment, among the constituent States

[1] Lord Crewe's speech, 1914.

of the Empire, she is at once the largest producer of food and raw material, and one of the largest consumers of manufactured products. And potentially, with her 300,000,000 of thrifty, industrious, and progressive workers, she is a commercial unit of greater importance in the world, whether for exports or for imports, than almost any other."[1] Evidently, the importance of India is not for her own sake, but for the sake of the Empire. And she is destined for ever to remain a producer of food and raw materials and a buyer of manufactured products. It is thus clear that in spite of all his professed friendliness to India, it is the interests of England that he has really at heart.

Sir Montagu Webb, one of the most successful European merchants in India, after describing the necessity for intelligently controlling the resources of India for Imperial ends, says in the concluding chapter of his interesting brochure: "This being so, our duty in India is plain. We must join our voices to those of Canada, Australia, New Zealand and South Africa in pressing upon the people of the United Kingdom the expediency of modifying their present tariff so as to utilise effectively the many

[1] *India and Imperial Preference.*

opportunities which the Empire now offers of strengthening the position not only of Great Britain itself, but of the British Dominions throughout the world."[1]

This brings us to the political aspect of the question. Indians are often asked to consider preferential trade from the Imperial, rather than the local, stand-point. Sacrifice, say the advocates of such a policy, is the price of Empire. But whose Empire? Within the British Empire five different varieties of political status are distinguishable. In the first category stands Great Britain, who not only governs herself, but rules the greater part of the Empire. Then come the Self-Governing Dominions, which are practically independent of outside authority, so far as their internal affairs are concerned. The other Colonies come next, which, though subject to Great Britain, possess representative institutions. In the fourth class stand the dependencies and possessions, which are in a state of complete subjection, and are autocratically governed. India stands as a class by herself. She s still a dependent country but has been promised full self-government.

In addition to differences in political

[1] *India and the Empire*, p. 163.

status, there are differences of race and colour, which introduce further complexities into the situation. An Imperial angle of vision may come natural and easy to the people of Great Britain and the white inhabitants of the Dominions and Colonies, who feel pride in belonging to an Empire over which the sun never sets. But the subject races cannot feel anything but humilitation in thinking of an Empire which has deprived them of their freedom and exploited their resources for purposes other than their own. The British Empire is sometimes described as a Commonwealth of Nations. But it looks a misnomer to describe an aggregation of countries as a Commonwealth, three-fourths of which are treated merely as "Estates". *However striking the idea of an Imperial Zollverein may be to the imagination, it must remain an absurdity so long* as the different countries remain separated, not merely by long distances, but by feelings and prejudices based on race, colour, and political status.

So far as India is concerned, Imperial Preference is not a practical proposition at the present moment. The question rests largely on sentiment. But to appeal to Indian sentiment

in the existing state of things in the country is to misread human nature. Some may even regard such an appeal as an attempt to add insult to injury. When the advocates of Imperial Preference point to the attitude of the Dominions, they forget the essential difference between those countries and India. Preferential trade between Great Britain and the Dominions is an 'arrangement between friends', a 'negotiation between kinsmen' by which both sides are to gain and neither to lose.[1] But it is quite different with India. Economically, India is still a field for exploitation by foreigners, and politically, her status is still that of a dependency, while the Dominions enjoy full self-government both in the political and the economic sphere. The Dominions first began to think of giving preferences to Great Britain long after they had been conceded the right of full responsible government. Nobody dares now to question their right to grant, withdraw, or vary of their own will and at their own pleasure, any preferences they like. It is true that fiscal autonomy has in theory been granted to India. But fiscal autonomy can only be real when it is associated with political freedom.

[1] *Vide* Currey, *British Colonial Policy*, p. 251

The essence of a sacrifice is that it should be made in a willing manner. In order that a policy of Imperial Preference may lead to greater solidarity among the component parts of the Empier, preferences should be given by each country of her own free will. But so long as India remains a subject country, any gifts made by her will be open to the suspicion that they are 'forced gifts' like the 'benevolences' granted to English Kings in the Middle Ages. And such suspicion is likely to intensify the discontent of which there is already far too much in the country. Besides, Imperial Preference forced on the people under present circumstances is likely to make them regard it as another expedient devised for the further exploitation of the country. It would, indeed, be extremely unwise to take a step which is calculated to embitter feelings and strengthen prejudices, and which may easily lead to disastrous consequences.

The main principle which knits together the different parts of the Empire, said a British statesman the other day, is freedom. If this principle is applied to India, the result will be the same here as it has been in the Dominions. As soon as India attains full self-government, a

community of interests will grow up between her and the other units of the federation, and there is no doubt that she will signify her attachment to the Commonwealth of Nations by agreeing to a policy of preferential trade relations.

The question has now been discussed from the Indian and Imperial points of view. But a word must be said about its international aspect. Preferential trade within the Empire would be beneficial to all parties so far as it would help to develop the resources of its component parts to the fullest extent and enable them to defend themselves against their enemies. But there is no reason why the British Empire should attempt to be absolutely self-sufficient. Mutual dependence of all countries upon one another ought to be the goal. Whether in economics or in politics, the essential unity and the common good of mankind must be kept steadily in view. It is only as a partial league of nations that a large aggregation can be supported. The Britannic Commonwealth of Free Nations, if properly constituted, may be a step towards the federation of the world. But a self-sufficient Empire, conscious of its excess of economic strength and guided by selfish and

narrow ideals, would be a danger to the freedom of weak nations and a menace to the peace of the world.